

Press Release

Ganga Spintex Limited

January 29, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 17.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs. 17.00 crore bank facilities of Ganga Spintex Limited. The outlook is '**Stable**'.

GSL was incorporated in 2010 by Mr. Amar Nath, Mr. Parminder Kumar and Mr. Anil Goyal. GSL is engaged in the business of manufacturing cotton yarn. The company possesses 13000 spindles which has the capacity of producing 6500 kg per day. The company is based out of Mansa (Punjab).

Analytical Approach

Acuité has considered the standalone business and financial risk profile of GSL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management**

The Directors have more than two decades of experience in the aforementioned line of business through their group concern.

- **Moderate working capital cycle**

Working capital cycle of the company is moderate as marked by increased Gross Current Asset (GCA) days of 136 in FY2018 from 79 in the previous year. Inventory days have increased from 81 in FY2017 to 140 in FY2018. Uncertainty around GST has led to sudden pile up in the inventory in FY2018. Debtor days have remained negligible in FY2018 on account of cash basis dealing with client.

- **Moderate financial risk profile**

GSL has moderate financial risk profile marked by net worth of Rs.17.15 crore in FY2018 as against Rs.16.84 crore in the previous year. Gearing of the company has improved from 1.15 times in FY2017 to 1.10 times in FY2018. Total debt of Rs.18.86 crore constitutes of short term debt of Rs.11.70 crore and long term debt of Rs. 7.16 crore. Unsecured debt brought in by the promoters has been treated as quasi equity as the same has been subordinated to the bank borrowings. Interest coverage ratio (ICR) has improved to 3.13 times in FY2018 from 2.71 times in the previous year. Total outstanding debt to total net worth (TOL/TNW) stands at 1.60 times in FY2018.

Weaknesses

- **Moderate scale of operations and volatility in raw material prices**

GSL has moderate scale of operations backed by operating income of Rs.55.04 crore in FY2018 as compared to Rs.64.64 crore in the previous year. GSL's profitability and business risk profile is exposed to volatility in raw material prices, as company's main raw material is cotton. Cotton being an agricultural commodity, the company is exposed to price variation due to production of cotton.

- **Competitive and fragmented industry**

Ganga Spintex Limited operates in a highly competitive industry and is exposed to increasing competition from both the organised as well unorganised players, thus limiting the pricing flexibility and margins.

Outlook: Stable

Acuité believes GSL will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case the company continues to register healthy growth in revenues along with sustained improvement in operating margins. Conversely, the outlook may be revised to 'Negative' in case of decline in the revenues or profit margins.

Liquidity position

The company has moderate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group had cash accruals of Rs.3.48 crore in FY2018, while the maturing debt obligations were in the range of Rs.3.00-3.50 crore over the same period. The cash accruals of the group are estimated to remain around Rs.4.00-5.00 crore during 2019-21.

The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 136 in FY 2018. This has led to limited reliance on working capital borrowings, the cash credit limit in the group remains utilised at ~70 percent during the last 12 months period ended December 2018. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	55.04	64.64	56.47
EBITDA	Rs. Cr.	5.44	5.83	6.24
PAT	Rs. Cr.	0.25	0.24	0.21
EBITDA Margin	(%)	9.88	9.02	11.05
PAT Margin	(%)	0.46	0.36	0.37
ROCE	(%)	6.16	6.99	16.02
Total Debt/Tangible Net Worth	Times	1.10	1.15	1.38
PBDIT/Interest	Times	3.13	2.71	2.34
Total Debt/PBDIT	Times	3.44	3.29	3.55
Gross Current Assets (Days)	Days	136	79	100

Status of non-cooperation with previous CRA (if applicable)

Brickwork Ratings, vide its press release dated December 31, 2018 has denoted the rating of Ganga Spintex Limited as 'Issuer did not Cooperate; BWR B+ (Pronounced as BWR Single B Plus) Downgraded' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'BWR BB Outlook: Stable (Pronounced as BWR Double B) Assigned' vide its press release dated July, 2016.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB- / Stable

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About Acuité Ratings & Research:

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