Press Release

GRG Global Textiles Limited

June 24, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs. 207.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB+**' **(read as ACUITE Triple B Plus)** on the Rs. 207.00 crore of bank facilities of GRG Global Textiles Limited (GGTL). The outlook is **'Stable'**.

About the Company

Incorporated in October 2020, GRG Global Textiles Limited (GGTL) is a part of the GRG group. GRG Group is promoted by Mr. Shashikant Goenka and Mrs. Samta Goenka. GGTL has been established to set-up a state-of-the-art facility in Ajnar, Gujarat for manufacturing of Greige fabric for Bed Sheets and two-for-one (TFO) yarn, which comes under home textile segment. GGTL will have an installed capacity of manufacturing 26.796 million meters of bed sheet fabric and TFO yarn capacity of 13,054 metric tonne (MT) per annum.

The proposed cost of project is Rs. 277.00 Cr. It is proposed to be financed by way of promoter's contribution (25.27 percent) and term loan under ATUF (74.73 percent). The promoters have proposed to contribute Rs. 70.00 Cr in the form of equity/preference shares/ unsecured loan, OCDs and Rs. 207.00 Cr will be arranged through bank finance. GGTL has entered into assured off-take agreement with Welspun India Limited (WIL) for sale of 90 percent quantity at market price with a contracted margin per Kg/meter. The SCOD for the proposed project is envisaged as April 01, 2022.

The rating factors in GGTL's experienced promoters, growth in home textile industry, company's off-take agreement with WIL ensuring assured revenue for GGTL; Fixed Margin per kg/meter manifesting low risk from fluctuating raw material prices and product realisations; low operational, technical and cost overrun risk associated with the project, strategic location with favorable government incentives, established raw material linkages in place, low funding risk, strong counterparty entailing low demand risk, moderate captive capacity at WIL level manifests high demand prospects. These rating strengths are partially offset by its moderate Implementation/execution risk given the nascent stage of the project, timely completion of the project given the present situation of Covid-19, high Customer concentration risk and GGTL's growth linked to the performance of WIL.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced Promoters**
  GRG Global Textiles Limited (GGTL) is a part of the GRG group. GRG Group is promoted by Mr.Shashikant Goenka and Mrs. Samta Goenka. The promoters have more than two decades of experience in the textiles industry. Acuité believes that GGTL draws strength from the experience and competence of the experienced management.

- **High growth in Home Textile Industry even during COVID-19 time; Off-take agreement with WIL ensuring assured revenue for GGTL with minimum price**
  Home textiles have been a major part of Global textile trade and it comes as no surprise. The ever-improving economic status of people supported by various modern financial innovations has enabled families to invest higher amounts into the home textiles segment. The per capita expenditure follows a downturn trend as we move from west to east on the globe. This naturally creates a higher demand for textiles in the developed western countries. The disparity in the habitation of the home textiles manufacturers has also created a modern silk route between the eastern part of the world and the western. The Top ten traded commodities accounted for almost 64 percent of the total Home textiles global trade. Cotton terry towels were single largest commodity with a massive market share of 14 percent. Moreover, out of the top 10 commodities, 4 commodities belong to the Carpets segment. Global home textile industry is expected to increase to US$ 60 billion by 2025 from US$ 52 billion. In India, the home textile industry is expected to almost double from current levels of US$ 8 billion, by 2025-26. India commands a significant share in the global cotton home textile market, thanks to its competitive edge in the form of abundant cotton availability and competitive costs. According to the Office of Textiles and Apparels (OTEXA) US, in CY2019, India supplied about 39 percent of the imports of cotton towels to the US, which has grown significantly from the levels of 30 percent in CY2009. Even in the cotton sheets segment, the Country supplied about 50percent (CY2019) of the total import to the US, increasing from 27 percent (CY2009).

  WIL, a flagship home textile company of Welspun Group, is presently concentrating in manufacturing of cotton based products viz. Terry Towels, Bed Sheets, Pillow Covers, Top of the Bed, Bath Rugs etc. It has a presence in over 34 countries and caters to 17 out of the top 30 retailers in the world. The company has established relationship with the likes of Wal-Mart, JC Penney, Shopko, Calvin Klein etc. to which it has been a regular supplier. WIL is an established player in the International Home Textile market. It is largest terry towel manufacturer in Asia and 2nd Largest in the world. It has been Ranked No.1 as Home Textile Supplier in US by Home Textile Today (HTT). About 95 percent of WIL's revenue is from Export, mainly to USA. Company has domestic presence through shop-in-shop route through Shopping malls and retail chains. The Company has tie up with 260 such outlets.

  GGTL has entered into a long-term off-take agreement with WIL (tenure of 12 years), a flagship home textile company of Welspun Group for supply of 90 percent of its available production which ensures assured and readily available revenue from the first day of operations. WIL will purchase 90 percent of the entire products manufactured by GGTL and is entitled to sell 10 percent i.e. the remaining portion of the products to any third party. In the event, WIL does not place the order or place short order and if GGTL fails to sell it in open market within 15 days, then WIL will be liable to pay for such unsold quantity of Products at the Prevailing Market Price plus 12 percent simple interest for the period of delay. Besides, in the event, WIL does not place the order or place short order and if Supplier sells the unsold quantity of Products in the open market at a price lesser than the Prevailing Market Price then WIL shall be liable to pay the differential amount plus 12 percent simple interest from WIL. The above are the part of the off-take agreement received by Acuité supported by the board resolution of WIL and GGTL. Acuité believes that off-take agreement leads to low demand risk.

- **Fixed Margin per kg/meter manifesting low risk arising from fluctuating raw material prices and end-product realisations**
  As per the off-take agreement, margin above material cost per kg/mtr is fixed at Rs.13.68 per kg for 2/24 count price for TFO yarn and Rs.33.75 per meter margin for bedsheet greige fabric. In other words, the floor price of off-take to be paid by WIL will not be less than Rs. 0.45 per pick margin on material cost for bed sheet greige fabric at any point of time and Rs. 0.57/- per kg per count average margin on raw material for TFO yarn. Consequently, any increase/decrease in raw material prices will be directly passed on to the selling price to WIL while keeping the margin intact for GGTL. Acuité believes that the fixed margin manifests low risk associated to the vulnerability of the raw materials price fluctuations and end-product realisations.

- **Low Operational, technical and cost overrun risk associated with the project**
  Apart from purchase of 90 percent of the available production, WIL being a leader in manufacturing of Home textile and having immense experience of implementing similar projects, will support GGTL to implement the project as well as in the day-to-day operations. WIL shall provide support to GGTL for manufacturing the products by providing all necessary information, data, assistance and other related technical materials and support to GGTL, so as to enable GGTL in effectively manufacture the products. The non-agricultural land spread across 13.24 acre is already available with GGTL for long term lease period of 25 years till October 31, 2045 which is availed from Welspun Anjar SEZ Limited

(100 percent wholly-owned subsidiary of WIL) and the lease deed has been executed. The requirement of manpower for the proposed project is around 400 personnel. The project being located in energy surplus State of Gujarat, there will be no major problem of availability of power. GGTL shall raise invoice for products supplied to WIL at the end of every month based on the prevailing market price with minimum contracted margin. WIL shall make the payment against the undisputed sum of such invoice within 30 days from the date of such invoice. Besides, the project entails low cost overrun risk as it is running as per schedule and further, to take care of escalation in commodity prices like cement and steel during the course of implementation of the project, a contingency of 2 percent (i.e. on the hardware cost has been considered a part of the project cost. Acuité believes that the project entails low operational, technical and cost overrun risk given the support from WIL.

- **Strategic location with favorable government incentives; established raw material linkages in place**
  The leased land is situated 4-5 kms from WIL plant, wherein, majority of the fabric and yarn are to be supplied. Anjar is a well-developed town in the Kutch district of Gujarat, located near two crucial ports Kandla (20 km) and Mundra (40 km) on Western port of India and is well connected by national highway and rail network. GGTL is expected to have established raw material linkages as raw materials will be supplied by the existing suppliers of WIL. Moreover, the quantity and quality of the yarn along with other raw materials required will also be chosen by WIL as the end product will be used by WIL. Besides, the project is eligible for favorable government subsidy/incentives in form of capital subsidy of eligible investment under Amended Technology Upgradation Fund Scheme (ATUFS), interest and power subsidy post COD. Acuité believes that GGTL is expected to benefit from the strategic location, and established raw material linkages post COD. Howbeit, despite the company being entitled for the receipt of favorable incentives, timely receipt of the same will be key factor.

- **Low funding risk**
  GGTL has low funding risk. GGTL has tied up for debt with the lender for Rs.207.00 Cr of term loan which was sanctioned in May 2021 (LC being sub limit up to Rs.156.00 crores to import machinery). GGTL has not drawn down any amount of the term loan as on date. It is under the process to open LC of Rs.100 Cr for import of Plant and Machinery. The repayments are expected to commence from quarter ending June 2023. GGTL is yet to tie up for working capital limits. The proposal will be put up with lenders at a later stage per-SCOD. Around 53.28 percent of the total equity infusion has been infused as on May 31, 2021 amounting to Rs.37.30 Cr. Acuité believes that GGTL is exposed to low funding risk, given its term loan being entirely tied-up.

- **Strong counterparty entailing low demand risk; moderate captive capacity at WIL level manifests high demand prospects**
  WIL, a flagship textile company of Welspun Group, is presently concentrating in manufacturing of cotton based products viz. Terry Towels, Bed Sheets, Pillow Covers, Top of the Bed, Bath Rugs etc. It has a presence in over 34 countries and caters to 17 out of the top 30 retailers in the world. The company has established relationship with the likes of Wal-Mart, JC Penney, Shopko, Calvin Klein etc. to which it has been a regular supplier. WIL is an established player in the International Home Textile market. It is largest terry towel manufacturer in Asia and 2nd Largest in the world. It has been Ranked No.1 as Home Textile Supplier in US by Home Textile Today (HTT). About 95 percent of WIL's revenue is from Export, mainly to USA. Company has domestic presence through shop-in-shop route through Shopping malls and retail chains. The Company has tie up with 260 such outlets.

  Presently, WIL is having requirement of bed sheet greige fabric of approx. 85.00 Mn mtrs and it is meeting out 60 – 65 percent of its fabric requirement by captive production facilities and balance of approx. 35 – 40 percent of the requirement are met out by purchase from various domestic / overseas suppliers. Considering, the current scenario and prospects of the textile market, WIL has undertaken expansion projects for its various products including bed sheet weaving facilities. Post these expansion projects, the company will be requiring approx. 110 Mn mtrs of BS Griege fabric and still there will be gap of approx. 50 – 55 percent in fabric requirement after meeting out from the captive facilities. Similarly for TFO yarn, WIL is presently having requirement of TFO yarn of approx. 35,000 mtpa and it is meeting out 25 – 30 percent of its TFO yarn requirement by captive production facilities and balance of approx. 65 – 70 percent of the requirement are met out by purchase from various domestic / overseas suppliers. Considering the current scenario and prospects of the home textile market WIL has undertaken expansion projects for its various products including spinning facilities. Post these expansion projects, the WIL will be requiring approx. 37,000 mtpa of yarn and still there will be gap of approx. 25 - 30 percent in yarn requirement after meeting out from the captive facilities.

In order to bridge above gaps between demand and available captive capacity with WIL, WIL will procure the fabric and TFO yarn from GGTL at the arm's length transaction at the prevalent market price with minimum contracted margin. To cater to the above captive demand of WIL, GGTL has entered into long term offtake agreement with WIL. This gap leaves much scope of further capacity expansion at GGTL's level post 2-3 years of SCOD. Acuité believes that GGTL has strong counterparty entailing low demand risk.

Weaknesses

- **Moderate Implementation/execution risk given the nascent stage of the project; timely completion of the project given the present situation of Covid-19**
  GGTL's project cost is Rs.277.00 Cr to be funded through term loan of Rs.207.00 Cr and promoter support of Rs.70 Cr. The project has achieved ~13.2 percent of financial completion as on March 31, 2021. The non-agricultural land is already available with GGTL for long term lease. GGTL has acquired 13.24 acre of land for the project by way of long term lease for a period of 25 years from Welspun Anjar SEZ Limited (100 percent wholly-owned subsidiary of WIL) and lease deed had been executed. Construction of the factory building has started and Rs.20.1 Cr is already in CWIP against it. Plant & Machinery has been selected, vendor has been identified and orders have been placed. P&M accounts for 61 percent of the total project cost (i.e. Rs.169.20 Cr). Capital advance of Rs.11.5 crores has been given to the P&M supplier as on May 31, 2021. The main component – imported plant & machinery is yet to arrive which is against import LC of Rs.156 crores (sub limit of Term loan availed). Hence, until the P&M is imported and installed, the project status will remain at nascent stage. The timeframe to install the P&M would be around 2-3 months.
  GGTL is under the process of opening LC of Rs.100 crores with its lender shortly. P&M cost consists of imported machinery of Rs.144.12 Cr and indigenous machinery of Rs.25.03 Cr. All statutory approvals such as factory license, environmental clearance, pollution control clearance, construction permission, power sanction and Fire NOC have been obtained from respective government authorities. Additionally, GGTL is exposed to the risk associated with the timely completion of the project given the present scenario of the Covid-19. The timely project completion under the present scenario of Covid-19 is mitigated to an extent the project is backed by continuous material supply and labour availability off-late. Acuité believes that GGTL will remain exposed to implementation/execution risk given the nascent stage of the project. Timely completion of the project to remain key monitorable over the medium term.

- **High Customer concentration risk; GGTL's growth linked to the performance of WIL**
  GGTL will remain exposed to the high customer concentration risk in its revenue profile as majority of the revenue will be from WIL through the off-take agreement signed. GGTL has signed an off-take agreement for 90 percent of its production to WIL for their captive consumption. GGTL is entitled to sell 10 percent of its production to any third party. In the event, WIL does not place the order or place short order and if GGTL fails to sell it in the open market within 15 days, then WIL will be liable to pay for such unsold quantity of Products at the prevailing Market Price plus 12 percent simple interest for the period of delay. Acuité believes that GGTL will remain exposed to high customer concentration risk over the long run post SCOD as any uncertain event/lower demand in WIL's end products might result in direct impact on GGTL's scale and profitability. Howbeit, this risk is to the extent offset by factors such as products being general in nature, offtake agreement of GGTL stating open sale to other customers in case WIL not to procure the committed offtake and WIL being a healthy cash profit generating company and is a market leader in home textile, exhibiting low demand risk.

Liquidity Position: Adequate

GGTL's liquidity is expected to remain adequate supported by secured payment mechanism with Escrow account and creation of Debt service reserve account (DSRA) equivalent to principal instalment of 1 quarter and 3 months interest by end of March 31, 2023 ensuring timely servicing of debt obligations of the term loans. In case of shortfall in cash flows, DSRA can be used for Debt Servicing and in such case of utilization of DSRA, same shall be replenished from cash inflows. Additionally, the promoters have provided personal guarantee till COD date plus 1 year thereafter (till the end of the moratorium period). To meet the upcoming working capital requirements, GGTL is expected to tie-up for working capital limits from lenders. Acuité believes that liquidity will remain adequate yet improve over the medium term.

Rating Sensitivities

Positive
• Timely import of the P&M resulting in advance stages of completion and thereafter, exhibiting timely achievement of the SCOD
• Scaling up of operations as envisaged post SCOD

Negative
• Delay in full commercialization of the project as envisaged
• Lower-than-expected revenue and EBITDA margin post SCOD

Outlook: Stable
Acuité believes that GGTL will continue to benefit over the medium term due to its experienced management, operational and technical support support from WIL. The outlook may be revised to 'Positive', in case of timely commercialization of the project, leads to higher-than-expected revenues and profitability, while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' in case delay in full commercialization leads to lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Prov)	FY20 (Actual)
Operating Income	Rs. Cr.	-	-
PAT	Rs. Cr.	-	-
PAT Margin	(%)	-	-
Total Debt/Tangible Net Worth	Times	-	-
PBDIT/Interest	Times	1.06	-

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Any Material Covenants
• To maintain Project level D/E ratio of maximum 2.96x
• Fixed asset coverage ratio (FACR) of 1.2x to be maintained throughout the tenor of the facility
• DSCR to be maintained minimum at 1.25x and average at 1.5x

Applicable Criteria

• Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
• Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.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
Term Loan#	27-May-21	8.25% to 8.50%	30-Mar-30	207.00	ACUITE BBB+/Stable (Assigned)

#Import/Inland Capex LC is sub-limit to term loan up to Rs.156.00 Cr

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About Acuité Ratings & Research:
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