

Press Release
GRG GLOBAL TEXTILES LIMITED
July 05, 2023

Rating Assigned and Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term
Bank Loan Ratings	5.00	ACUITE A- Stable Assigned	-
Bank Loan Ratings	237.00	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	10.00	-	ACUITE A2+ Assigned
Bank Loan Ratings	10.35	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	262.35	-	-

Rating Rationale

Acuite has reaffirmed its long term rating of 'ACUITE A-' (read as ACUITE A minus) and short term rating of 'ACUITE A2+' (read as ACUITE A two plus) on Rs.247.35Cr bank facilities of GRG global Textiles Limited (GGTL). The out look is 'Stable'.

Acuite has assigned its long term rating of 'ACUITE A-' (read as ACUITE A minus) and short term rating of 'ACUITE A2+' (read as ACUITE A two plus) on additional Rs.15.00Cr bank facilities of GRG global textiles. The outlook is 'Stable'.

Rationale for rating reaffirmation:

The rating continues to draw its comfort from the experience of its promoters, off take agreement with Welspun India Limited (WIL) which ensures assured revenue, fixed margins and low demand risk. There was a delay of 6months in attaining DCCO due to global supplychain issues however, there is no cost overrun. During the 6 months period the company has reported sales of Rs.215Cr (Estimates) ending March 31, 2023 and EBITDA margin 7.81 percent. Going forward GGTL is expected to utilize its production capacity in the range of 90-95 percent in the near term and expected to improve its turnover. The above mentioned strengths were partially constrained by the high customer concentration risk and GGTL's growth linked to WIL's performance in home textile segment.

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 Anjar, 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.

Analytical Approach

Acuite 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 Press Release GRG GLOBAL TEXTILES LIMITED May 17, 2023 Rating Reaffirmed the experience and competence of the experienced management.

Strong Counter Party:

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 excellent relationship with the likes of Wal-Mart, JC Penney, Shopko, Calvin Klein etc. to which it has been a regular supplier. GGTL's performance is directly linked with the product demand for WIL's products as the company has long term agreement with WIL for purchase of its 90 percent production.

Assured revenue and EBITDA with Offtake agreement:

GGTL is entered into long term offtake agreement with Welspun India Limited (WIL), a flagship home textile company of Welspun Group for supply of its 90% of its available production which ensures assured and readily available revenue from the first day of production. GGTL can sell the balances 10 percent to the third party customers. WIL has ensured minimum price of the products to the company, which will give additional comfort to the lenders. GGTL's operational margins are fixed as EBITDA per mtr/kg is fixed at Rs.14 per kg for 2/24 count price for TFO yarn and Rs.33.75 per meter margin for bedsheet greige fabric. Hence, any increase/decrease in raw material prices will be directly passed on to the selling price to WIL with keeping the EBITDA intact for GGTL.

GGTL has started its commercial operations from September 1st, 2022 and the plant was operational at 70 percent capacity for only 6 months during FY23 and made sales worth ~Rs.215Cr as per YTD till March 31, 2023. GGTL is expected to report EBITDA in the range of 7.5 - 8 percent for the year end FY23. Going forward the company is expected to improve its performance as the plant is going to be fully operative in FY24.

Moderate working capital cycle:

The working capital operations of the company are estimated to be moderate with the Gross Current Assets (GCA) days in the range of 149 days – 89 days in the medium term. The payment terms with customers especially with WIL was provided for 30 days which is as per the terms of Offtake agreement with WIL. For vendors the company is paying within 45 days. Generally, GGTL receives batch wise orders from WIL and holds raw material inventory required for next 30 days. Going forward the working capital cycle is expected to improve in the medium term.

Weaknesses

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. However, 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.

Rating Sensitivities

- Lower than expected revenue and EBITDA
- Any deterioration in the financial risk profile

Material covenants

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

Liquidity Position : Adequate

The company has been operational only for 6 months during FY23 and it is estimated to report low NCA's for FY23. The repayment of the term loan will start from quarter ending June 2023 and estimated to report NCA's in the range of Rs.17-18Cr for FY24. Promoters will infuse funds to meet any insufficiencies in the NCA against the debt obligations. The current ratio of the company is estimated to be in the range of 1.3 to 1.7 times during the medium term. The bank limits have been utilized at an average of 5 percent in the past 6 months ending March 31, 2023. However, the company have to maintain DSRA equivalent to the principle instalment of 1 quarter and 3 months' interest from March 31, 2023

Outlook: Stable

Acuité believes that GGTL will continue to benefit over the medium term due to its experienced management, operational and technical 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

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	0.00	0.00
PAT	Rs. Cr.	0.32	0.01
PAT Margin	(%)	0.00	0.00
Total Debt/Tangible Net Worth	Times	2.84	0.00
PBDIT/Interest	Times	1.06	1.10

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 May 2023	Proposed Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	207.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	10.35	ACUITE A2+ (Reaffirmed)
17 Feb 2022	Term Loan	Long Term	207.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Proposed Cash Credit	Long Term	30.00	ACUITE A- Stable (Assigned)
	Bank Guarantee	Short Term	10.35	ACUITE A2+ (Assigned)
24 Jun 2021	Term Loan	Long Term	207.00	ACUITE BBB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	10.35	ACUITE A2+ Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A- Stable Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A- Stable Assigned
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A2+ Assigned
Indian Bank	Not Applicable	Term Loan	27 May 2021	8.5	30 Mar 2031	Simple	207.00	ACUITE A- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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