



Press Release
GIMA MANUFACTURING PRIVATE LIMITED
May 10, 2022
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	22.50	ACUITE A- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	22.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned a long term rating of **'ACUITE A-' (read as ACUITE A minus)** to the Rs.22.50 crore bank facilities of Gima Manufacturing Private Limited (GMPL). The outlook is **'Stable'**.

The rating assigned takes into account improvement in Gimatex Group's (GG) operating performance. Its revenue improved to Rs. 1757 Cr. in FY2022 (Provisional) against Rs. 1011 Cr. in FY2021 a growth of Rs.746 Cr. While the operating margin remain stable in the range of 9 – 10 percent. The rating assigned also derives comfort from the extensive experienced management, established operational track record over 100 years and improving comfortable financial risk profile. The rating is however constrained on account of working capital intensive nature of operations and susceptibility of the group's profitability to competitive nature of the industry. Group's ability to maintain its scale of operation and working capital cycle will continue to remain key rating monitorables.

About the Company

GMPL, incorporated in the year 1974 is engaged in the business of cotton seed de-linting. It was earlier engaged in cotton ginning and pressing activities. It now runs a cottonseed de-linting plant at Hinganghat, Maharashtra. Apart from this, the entity also runs pipe & tiles factory and mill board unit at Ballarpur & Kalamna in Chandrapur district. It sells almost its entire production of de-linted cotton seed to its group entity Gimatex Industries Private Limited (GIPL).

About the Group

GIPL started its operations as Rai Saheb Rekhchand Mohota Spinning & Weaving Mills Limited (RSR Mohota Mills) in the year 1898. It changed its name to Vibha Synthetics Private Limited in the year 1994 and further it got changed to its current name in the year 2005. GIPL is currently managed by the fifth and sixth generations of the Mohota family. GIPL is a completely integrated textile company with ginning, spinning, weaving and processing units. The company is engaged in the manufacturing of cotton yarn, blended yarn, fabrics and cotton seeds oil. The company has five manufacturing facilities, four are at Hinganghat, Yerla, Wani & Bela near Nagpur in Maharashtra and one in Ahmedabad, Gujarat.

Analytical Approach

The team has consolidated the business and financial risk profiles of Gima Manufacturing Private Limited (GMPL) & Gimatex Industries Private Limited (GIPL) together referred to as the 'Gimatex Group' (GG). The consolidation is in view of common management, operational &

financial linkages between the entities. Extent of consolidation: Full.

Key Rating Drivers

Strengths

Experienced management and established track record of operations

GG promoted by the Mohota family, originally hailing from Rajasthan, is a diversified business conglomerate with presence in textile manufacturing and trading since 1898. Apart from textiles, the group also has presence in cotton ginning & pressing, cotton seed de-linting, cotton seed oil, pipe & tiles factory and mill board unit. The management of GIPL is led by Mr. Prashant Mohota & Mr. Vineet Mohota who has over two decades of experience in the industry and are the fifth generation of the Mohota family managing the business. While GMPL is promoted by its director Mrs. Premlatadevi Mohota who is also a part of the Mohota family. The group also benefits from its qualified and experienced team of senior management which has helped them established long term relations with their customers as well as suppliers. GIPL is an integrated textile manufacturer with operations in cotton ginning to finished fabrics and cotton seed oil manufacturing. Their installed capacity of yarn spinning has increased to 1,70,000 spindles in FY2022 from 1,31,000 spindles in FY2021 and that of grey cloth, it has increased to 2,88,000 loom shifts in FY2022 from 2,82,000 loom shifts in FY2021. It has its plants at Hinganghat, Yerla, Wani & Bela near Nagpur in Maharashtra and one in Ahmedabad, Gujarat.

Acuité believes that GG will continue to benefit from extensive experience of its management, established track record of operations and presence in the industry.

Comfortable financial risk profile

GG's financial risk profile is healthy marked by healthy net worth and comfortable debt protection metrics. The Group operates in a capital intensive industry which requires large capex for capacity maintenance as well as addition. The gearing remains moderately high on account of the management's moderately aggressive gearing policy and the capital intensive nature of business. The gearing level (debt-equity) stood at 1.59 times as on 31 March, 2021 as against 1.56 times as on 31 March, 2020. The total debt of Rs.550 Cr as on 31 March, 2021 consists of long term bank borrowings of Rs.247 Cr, unsecured loans from directors of Rs.9 Cr and short term working capital limit of Rs.243 Cr. The net worth of the group has sequentially improved to Rs.346 Cr as on 31 March, 2021 as against Rs.328 Cr as on 31 March, 2020 on account of healthy accretion to reserves. The interest coverage ratio stood at 2.55 times for FY2021 as against 2.87 times for FY2020. The Net Cash Accruals to Total debt stood at 0.09 times for FY2021 as against 0.13 times for FY2020. The Total outside liabilities to Tangible net worth stood at same level of 2.00 times for FY2021 and FY2020.

Further, for FY2022, the group's gearing is expected to remain in the range of 1.19 – 1.22 times while the interest coverage ratio and DSCR are expected to be in the range of 5.07 – 5.10 times and 1.26 -1.30 times respectively. NCA/TD will be in the range of 0.21 – 0.25 times and TOL/TNW will be in the range of 1.76 – 1.80 times. The management has plans of capacity expansion in GIPL. Total project cost is estimated to be at Rs.130 Cr. which will be funded by debt and completion is expected by FY2024.

Acuité believes that the financial risk profile of GG will remain comfortable in near to medium term despite the additional impact of debt funded capex.

Improving operating performance

GG reported revenues of ~Rs.1757 Cr for FY2022 (Provisional) as against Rs.1011 Cr in FY2021 which is a growth of 74 percent. The growth in revenues has been achieved mainly due to an increase in the production capacity of both the entities i.e. for GIPL it increased to 95 percent in FY2022 as against 73 percent in FY2021 and for GMPL it increased to 74 percent in FY2022 as against 64 percent in FY2021, in order to meet the increasing demand of cotton yarn & fabrics as well as cotton black seed and linters in both domestic & exports markets.

Majority of the group's revenue i.e. for GMPL, almost 98 percent of the sales is generated through the sale of Cotton Black Seeds and Cotton Linters which are sold on a large basis to its parent company itself i.e. Gimatex Industries which they further export to countries like

Japan & China whereas for Gimatex Industries, almost 95 percent of the sales is generated through the sale of cotton yarn & fabrics by contribution of around 70 percent of sales through domestic and 30 percent through exports to countries like Bangladesh, US, Singapore, Poland and South Korea.

The operating margin of the group got declined to 8.48 percent in FY2021 as against 9.40 percent in FY2020 considering the fluctuation in demand & supply as well as the prices of raw materials required under the various segments of the group to manufacture the products got affected due to covid induced lockdown restrictions. Further, the group has achieved a lower net profit of Rs.13 Cr in FY2021 as against Rs.35 Cr in FY2020. Operating margin & PAT Margin of the group is expected to improve in near to medium term in the range of 9.50 – 10.50 percent & 3.50 – 4.50 percent considering the availability of raw materials at better prices and improving operating performance.

Acuité expects the group to maintain a stable operating performance on account of increase in demand over the medium term.

Weaknesses

Working capital intensive nature of operations

The operations of GG are working capital intensive marked by Gross Current Assets (GCA) of 215 days which remained same for FY2021 and FY2020. This is primarily on account of high inventory days which stood declined to at 115 days in FY2021 as against 120 days in FY2020. The high inventory days are on account of seasonal nature of the raw material as the company has to hold high inventory levels during the harvest season for the entire year. However, the debtors and creditors cycle however remain slightly lower in FY2021 as against FY2020. Debtors stood at 72 days in FY2021 as against 74 days in FY2020 whereas the creditors stood at 49 days in FY2021 as against 51 days in FY2020.

For the year FY2022 Provisional, it is estimated that there will be an improvement in the working capital cycle of the group as it will maintain an inventory cycle of ~68 days, debtors cycle will remain at ~68 days and creditors cycle will remain at ~54 days. Acuite expects GG's ability to maintain its working capital cycle further will remain a key rating sensitivity factor.

Susceptibility of profitability to volatility in cotton and yarn prices

The main raw material for the group is cotton, and the procurement season for the same is during November to April every year, leading to high inventory holding at the end of every financial year. Hence, it is required to maintain an inventory of four to six months, leading to high working capital requirements. The cotton crop, being an agri-commodity, is dependent on weather conditions and is susceptible to plant pests and diseases, leading to volatility in cotton prices.

Presence in highly fragmented and competitive industry

The textile industry is highly fragmented and competitive, with a presence of a large number of organised and unorganised players, thereby limiting the group's bargaining power against its customers.

ESG Factors Relevant for Rating

Manufacture of textile has a substantial environmental impact. The inherent material risk to this industry is water efficiency and water pollution as it consumes large volumes of water in its manufacturing process. Another material risk is carbon footprint of the products. With the advent of fast fashion, key material issues like efficiency in raw material sourcing and energy intensive production become very crucial.

Employee health & safety management is of primary importance to the textile industry given the nature of operations. Additionally, product quality and safety is of utmost significance. Social issues such as child labour and forced labour are crucial considering the exploitative industry practices. Furthermore, responsible supply chain management and community relations are key influencing factors affecting the social score.

Governance factors albeit important have lower significance to the textile industry in comparison to social and environmental issues. Factors such as ethical business practices, management and board administration hold primary importance in manufacture of textile industry. Likewise, shareholder's rights and compliance regulations are other material issues to the industry.

Rating Sensitivities

- Ability to maintain scale of operations and profitability
- Ability to maintain working capital cycle

Material covenants

None

Liquidity Position - Adequate

GG has healthy net cash accruals (NCA) to its maturing debt obligations. The group generated cash accruals in the range of Rs.72 Cr – Rs.49 Cr during FY2019 to FY2021 against repayment obligation of Rs.28 Cr to Rs.51 Cr during the same period. Going forward the NCA are expected in the range of Rs.106 Cr – Rs.138 Cr for period FY2022-FY2024 against repayment obligation of Rs.44 Cr to Rs.51 Cr for the same period. The operations of the group are highly working capital intensive marked by gross current asset (GCA) days of 215 days for FY2021 due to its high inventory days. This makes the group dependent on bank borrowing for working capital requirement. Average bank limit utilization for 6 months' period ended Dec 2021 stood at ~54 percent. Current ratio stands at 1.47 times as on 31 March 2021. The group has maintained cash & bank balance of Rs.17.14 crore in FY2021.

Acuite believes that the liquidity of GG is likely to remain adequate over the medium term on account of healthy cash accrual against its maturing debt obligations and adequate unutilized bank limits.

Outlook: Stable

Acuite believes that GG will maintain a 'Stable' outlook in near to medium term on account of its experienced management, established track record of operations and improving operating performance. The outlook may be revised to 'Positive' if the company is able to achieve higher than expected growth in revenue while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to negative in case of moderation in liquidity profile and its profitability margins, and deterioration in debt protection indicators.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	1010.59	1000.26
PAT	Rs. Cr.	13.23	35.01
PAT Margin	(%)	1.31	3.50
Total Debt/Tangible Net Worth	Times	1.59	1.56
PBDIT/Interest	Times	2.55	2.87

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

Not Applicable

Any other information

None

Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History :

None

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.50	ACUITE A- Stable Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.25	ACUITE A- Stable Assigned
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A- Stable Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	2.54	ACUITE A- Stable Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.21	ACUITE A- Stable Assigned

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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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