

Press Release

Gima Manufacturing Private Limited

December 30, 2022

Rating Reaffirmed



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Total Withdrawn Quantum (Rs.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

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs.22.50 Cr bank facilities of Gima Manufacturing Private Limited (GMPL; part of Gima group). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation takes into account improvement in Gimatex Group's (GG) operating performance. Its revenue improved to Rs. 1,623 Cr. in FY2022 against Rs. 1,011 Cr. in FY2021, a growth of Rs.613 Cr. While the operating margin remained stable in the range of 9 – 10 percent. The rating reaffirmation also derives comfort from the extensive experienced management, established operational track record over 100 years and comfortable financial risk profile. The rating is however constrained on account of moderately 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 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

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité 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.

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 1,80,816 spindles in FY2022 from 1,61,808 spindles in FY2021 and that of grey cloth, it has increased to 3,53,160 loom shifts in FY2022 from 2,81,880 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

Financial risk profile of GG is comfortable marked by healthy network, moderate gearing and comfortable debt protection metrics. The network of the group has improved and stood healthy at Rs.405 Cr as on 31 March, 2022 as against Rs.346 Cr as on 31 March, 2021 on account of healthy accretion to reserves. The group operates in a capital-intensive industry which requires large capex for capacity maintenance as well as addition. The gearing therefore 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 1.64 times as on 31 March, 2022 as against 1.59 times as on 31 March, 2021. The total debt of Rs.666 Cr as on 31 March, 2022 consists of long term bank borrowings of Rs.351 Cr, unsecured loans from directors of Rs.8 Cr, loans and advances from related parties of Rs.38 Cr and short term working capital limit of Rs.269 Cr.

The interest coverage ratio and DSCR stood improved at 4.00 times and 1.20 times for FY2022 as against 2.55 times and 1.01 times for FY2021. The Net Cash Accruals to Total debt stood marginally improved at 0.15 times for FY2022 as against 0.09 times for FY2021. The Total outside liabilities to Tangible net worth stood marginally high at 2.04 times for FY2022 as against 1.99 times for FY2021.

Acuité believes that the financial risk profile of GG will remain comfortable in near to medium term.

Improving operating performance

GG reported revenues of Rs.1,623 Cr for FY2022 as against Rs.1,011 Cr in FY2021 which is a growth of 60 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 86 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 stood improved at 9.80 percent in FY2022 as against 8.48 percent in FY2021 as well as the net profit margin of the group stood improved at 3.54 percent in FY2022 as against 1.31 percent in FY2021 on account of improvement in the overall operating performance during the year.

For the current year FY2023 as on October 2022, GIPL has achieved an overall revenue of Rs.777 Cr and GMPL has achieved an overall revenue of Rs.51 Cr. It is estimated that the group will maintain a stable operating performance by the end of FY2023. In addition to this, the group has completed the required capex of increasing the present installed capacity of its yarn spinning and grey fabric units in GIPL in August 2022 which is expected to support the rising demand over the medium term.

Acuité believes that ability of the group to maintain its scale of operations and profitability in near to medium term will remain a key rating sensitivity.

Weaknesses

Moderately working capital intensive nature of operations

The operations of GG are moderately working capital intensive marked by its Gross Current Assets (GCA) of 167 days as on 31 March, 2022 which stood improved as against 214 days as on previous year end. The inventory cycle of the group stood at 90 days as on 31 March, 2022 as against 115 days as on 31 March, 2021. The inventory days are generally high on account of seasonal nature of the raw material availability as the group has to hold high inventory levels during the harvest season for the entire year. On the other hand, the receivable days stood improved at 60 days as on 31 March, 2022 as against 72 days as on 31 March, 2021 on account of improved realisation from the debtors during the year as well as the creditor days stood improved at 31 days as on 31 March, 2022 as against 49 days as on 31 March, 2021.

Acuité believes that ability of the group to maintain its working capital cycle over the medium term 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 improve scale of operations and profitability
- Ability to improve the Debt-EBITDA below 3 times and report better ROCE as a result of the capex undertaken in the recent past
- Ability to maintain working capital cycle

Material Covenants

None

Liquidity position - Adequate

GG has adequate liquidity position marked by healthy net cash accruals (NCA) to its maturing debt obligations, moderate bank limit utilisation and working capital cycle. The company generated cash accruals in the range of Rs.69 Cr to Rs.100 Cr during FY2020 to FY2022 against its repayment obligation in the range of Rs.23 Cr to Rs.61 Cr during the same period. Going forward the NCA are expected in the range of Rs.102 Cr to Rs.112 Cr for period FY2023-FY2024 against its repayment obligation in the range of Rs.78 Cr to Rs.76 Cr for the same period. The working capital operations of the company are moderately intensive marked by its improved gross current asset (GCA) days of 167 days as on 31 March, 2022 as against 214 days as on 31 March, 2021. The average bank limit utilization for 6 months' period ended September 2022 stood low at ~40 percent. Current ratio stands at 1.49 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.2 Cr in FY2022.

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

Acuité 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 group is able to achieve higher-than-expected growth in revenue and improvement in financial risk profile, 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1623.27	1010.59
PAT	Rs. Cr.	57.47	13.23
PAT Margin	(%)	3.54	1.31
Total Debt/Tangible Net Worth	Times	1.64	1.59
PBDIT/Interest	Times	4.00	2.55

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

None

Any Other Information

None

Applicable Criteria

- 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.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
10 May 2022	Cash Credit	Long Term	10.50	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	3.25	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	2.54	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	1.21	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE A- 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
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.50	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.25	ACUITE A- Stable Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A- Stable Reaffirmed
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.54	ACUITE A- Stable Reaffirmed
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.21	ACUITE A- Stable Reaffirmed

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About Acuité Ratings & Research

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