



Press Release
Gima Manufacturing Private Limited
August 07, 2023

Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	7.00	ACUITE A- Negative Assigned	-
Bank Loan Ratings	22.50	ACUITE A- Negative Reaffirmed Stable to Negative	-
Bank Loan Ratings	0.50	-	ACUITE A2+ Assigned
Total Outstanding Quantum (Rs. Cr)	30.00	-	-

Rating Rationale

Acuite has reaffirmed the 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 revised from '**Stable**' to '**Negative**'.

Acuite has also assigned the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) to the Rs.7.50 Cr bank facilities of Gima Manufacturing Private Limited (GMPL; part of Gima group). The outlook is '**Negative**'.

Rationale for rating reaffirmation and revision in outlook

The rating reaffirmation of GG takes into account the extensive experienced management with an established track record of operations over 100 years in the textile industry. 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. The outlook revision of GG from 'Stable' to 'Negative' is due to lower-than-expected operating performance of the group marked by reduced operating income, increased overall debt levels to fund ongoing capex and deteriorated debt service coverage indicators. The group generated a revenue of Rs. 1380 Cr in FY2023 (Prov.) as against Rs. 1623 Cr in FY2022. The decline is primarily driven by overall slowdown in the industry due to surge in cotton prices. Further, higher-than-expected increase in total debt as on March 31, 2023 has led to an increase in Debt to EBITDA levels to ~5.28 times for FY2023 (Prov.) as against 4.15 times for FY2022. Going forward, ability of GG to improve its financial risk profile without any further deterioration in the debt protection metrics along with an improved scale of operations and efficient working capital cycle will remain key rating sensitivity factors.

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 sixth generation 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 sixth 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. 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.

Moderate financial risk profile

Financial risk profile of GG is moderate marked by healthy network, moderate gearing and average debt protection metrics. The tangible network of the group has improved and stood healthy at Rs.455 Cr as on 31 March 2023 (Provisional) as against Rs.405 Cr as on 31 March 2022 due to 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 1.63 times as on 31 March 2023 (Provisional) as against 1.64 times as on 31 March 2022. The total debt of Rs.743 Cr as on 31 March 2023 (Provisional) consists of long-term bank borrowings of Rs.368 Cr, unsecured loans from directors and related parties of Rs.52 Cr, and short-term working capital limit of Rs.323 Cr.

The interest coverage ratio stood at 4.19 times for FY2023 (Provisional) as against 4.00 times for FY2022 whereas the DSCR stood at 1.38 times for FY2023 (Provisional) as against 1.54 times for FY2022. The Net Cash Accruals to Total debt stood at 0.13 times for FY2023 (Provisional) as against 0.15 times for FY2022. The Total outside liabilities to Tangible net worth stood improved at 1.90 times for FY2023 (Provisional) as against 2.04 times for FY2022. The Debt-to-EBITDA ratio stood high at 5.28 times for FY2023 (Provisional) as against 4.15 times for FY2022.

Acuité believes that ability of GG to improve its financial risk profile over the medium

term without any further deterioration in the debt protection metrics will remain a key rating sensitivity factor.

Stable profitability margins, albeit decline in operating income

GG reported decline in its revenue of Rs.1,380 Cr for FY2023 (Provisional) as against Rs.1,623 Cr for FY2022 which is a de-growth of ~1.5 percent primarily caused by sharp decrease in the cotton prices during the year i.e. since June 2022 to December 2022, due to which the demand of cotton yarn and fibre products remained subdued which led to decline in the group's overall sales volume across the domestic and exports market during the year. The average capacity utilisation of the Group's ginning and pressing segment stood at ~68% in FY2023 as against ~97% in FY2022. Further, GG had increased its spinning capacity in FY2023, however, the overall production levels remained subdued, leading to moderated fixed asset turnover ratio of 1.62 times in FY2023 as against 2.11 times in FY2022.

However, despite of degrowth in the revenue, the operating margin of the group stood improved at 10.05 percent in FY2023 (Provisional) as against 9.80 percent in FY2022, whereas the net profit margin of the group stood marginally improved at 3.56 percent in FY2023 (Provisional) as against 3.54 percent in FY2022.

For the current year FY2024 as on June 2023, GIPL has achieved an overall revenue of Rs.387 Cr and GMPL has achieved an overall revenue of Rs.39 Cr. It is estimated that the cotton prices will remain steady in the near term and increase marginally from Q3 FY2024 with the beginning of the new cotton season. In addition to this, the group is also undertaking the capex of adding 35,904 additional spindles to increase its capacity of yarn spinning and grey fabric units in GIPL to be completed by March 2024 which is expected to support the rising demand over the medium term.

Acuite believes that ability of GG to improve its scale of operations while maintaining the profitability margins will remain a key rating sensitivity factor.

Weaknesses

Working capital intensive nature of operations

The operations of GG are working capital intensive marked by its Gross Current Assets (GCA) of 201 days as on 31 March 2023 (Provisional) which stood high as against 167 days as on 31 March 2022. This is due to the inventory cycle of the group which stood increased at 139 days as on 31 March 2023 (Provisional) as against 90 days as on 31 March 2022. 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 46 days as on 31 March 2023 (Provisional) as against 60 days as on 31 March 2022 whereas the creditor days stood improved at 27 days as on 31 March 2023 (Provisional) as against 31 days as on 31 March 2022. The average bank limit utilization for 6 months' period ended May 2023 stood at ~71 percent.

Acuite believes that ability of GG to maintain improve and maintain an efficient 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 financial risk profile without any further deterioration in the debt protection metrics
- Ability to improve scale of operations while maintaining the profitability margins
- Ability to maintain improve and maintain an efficient 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. The group generated cash accruals in the range of Rs.49 Cr to Rs.96 Cr during FY2021 to FY2023 (Provisional) against its debt repayment obligation in the range of Rs.51 Cr to Rs.68 Cr during the same period. Going forward the NCA are expected in the range of Rs.107 Cr to Rs.116 Cr for period FY2024-FY2025 against its repayment obligation in the range of Rs.81 Cr to Rs.86 Cr for the same period. The working capital operations of the group are intensive marked by its gross current asset (GCA) days of 201 days as on 31 March 2023 (Provisional). Current ratio stands at 1.57 times as on 31 March 2023 (Provisional). The group has maintained cash & bank balance of Rs.0.67 Cr in FY2023 (Provisional).

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

Outlook: Negative

The outlook is Negative due to lower-than-expected operating performance of GG marked by reduced operating income, increased overall debt levels to fund ongoing capex and deteriorated debt service coverage indicators. The outlook may be revised to 'Stable' in case of improvement in the group's operating income while maintaining the profitability margins and capital structure and comfortable debt service coverage indicators. The rating shall be downgraded upon further deterioration in scale of operations or incurring of additional debt funded capex leading to further deterioration in financial risk profile of the group.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	1380.39	1623.27
PAT	Rs. Cr.	49.21	57.47
PAT Margin	(%)	3.56	3.54
Total Debt/Tangible Net Worth	Times	1.63	1.64
PBDIT/Interest	Times	4.19	4.00

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

Not applicable

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, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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
30 Dec 2022	Term Loan	Long Term	1.21	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	10.50	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	2.54	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	3.25	ACUITE A- Stable (Reaffirmed)
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
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.50	ACUITE A2+ Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.35	ACUITE A- Negative Reaffirmed Stable to Negative
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A- Negative Reaffirmed Stable to Negative
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	11.50	ACUITE A- Negative Reaffirmed Stable to Negative
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE A- Negative Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.97	ACUITE A- Negative Reaffirmed Stable to Negative
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.68	ACUITE A- Negative Reaffirmed Stable to Negative

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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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