Date: **July 04, 2024**

आषाढ़ कृष्ण पक्ष, त्रयोदशी,
विक्रम संवत, २०८१

National Stock Exchange of India Limited
"Exchange Plaza"
Bandra – Kurla Complex,
Bandra (E), Mumbai – 400 051
NSE Code: GHCLTEXTILE

BSE Limited
Corporate Relationship Department,
1st Floor, New Trading Ring, Rotunda
Building, P.J. Towers,
Dalal Street, Fort, Mumbai – 400 001
BSE Code: 543918

Dear Sir/Madam,

Subject: Intimation of credit ratings assigned by CARE Ratings Limited

Pursuant to the requirement of Regulation 30(6) of the SEBI (LODR) Regulations 2015, we would like to inform that CARE Ratings Limited, one of the Credit Rating Agency, has reviewed the Credit ratings of GHCL Textiles Limited (the Company) for bank facilities and assigned the following ratings:

Facilities	Ratings assigned	Rating action
Long-term Bank Facilities	**CARE A- ; Stable**	Re-affirmed
Long-term / short - term Bank Facilities	**CARE A- ; Stable / CARE A2+**	Re-affirmed
Short - term Bank Facilities	**CARE A2+**	Re-affirmed

Please note that the said information was received by the Company on July 04, 2024 at 12:23 p.m. (IST). Copy of the said communication received from the rating agency is attached herewith for your reference and record.

You are requested to kindly take note of the same and disseminate the information on your website.

Thanking you

Yours faithfully

GHCL TEXTILES LIMITED

For GHCL Textiles Limited

LALIT NARAYAN DWIVEDI

Digitally signed by LALIT NARAYAN DWIVEDI
Date: 2024.07.04 13:55:54 +05'30'

Lalit Narayan Dwivedi
Company Secretary and Compliance officer
Encl: as above.

GHCL Textiles Limited (Formerly Sree Meenakshi Mills)
GHCL House, B- 38, Institutional Area, Sector- 1, Noida- 201301 (U.P.), India. Ph. : +91 - 120 - 2535335, 4939900
CIN : L18101GJ2020PLC114004, E-mail : info@ghcltextiles.co.in, Website : www.ghcltextiles.co.in
Regd. Office : GHCL House, Opp. Punjabi Hall, Near Navrangpura Bus Stand, Navrangpura, Ahmedabad - 380009, India

GHCL Textiles Limited

July 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	17.21 (Reduced from 78.74)	CARE A-; Stable	Reaffirmed
Long-term / Short-term bank facilities	500.00	CARE A-; Stable / CARE A2+	Reaffirmed
Short-term bank facilities	100.00	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of GHCL Textiles Limited (GTL) continue to derive strength from experience of its promoters in the textile industry and long and established track record of the erstwhile yarn division of GHCL Limited (GHCL; rated 'CARE AA-; Stable/ CARE A1+'), which was de-merged into GTL w.e.f. April 01, 2023. GTL's reputed and diversified clientele, high operating efficiency with healthy capacity utilisation and high share of captive power consumption from renewable sources further underpin its ratings. Ratings also favourably factor GTL's strong net worth base and strong liquidity.

Ratings are, however, tempered by improved albeit moderate profitability margins leading to low return indicator marked by low fixed assets turn over and return on capital employed (ROCE). Despite expected improvement in the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin, ROCE is expected to remain low in the near to medium term. Ratings also remain constrained on account of susceptibility of its profitability to volatility in raw material prices and foreign exchange rate fluctuations and its presence in the cyclical and fragmented textile industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable improvement in the PBILDT margin to around 14% leading to improvement in ROCE.

Negative factors

- Deterioration in its total debt/PBILDT beyond 2.5x on a sustained basis.
- Significant elongation in its operating cycle thereby adversely impacting its liquidity.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that GTL will continue to maintain its high operating efficiency, comfortable capital structure and debt coverage indicators.

Detailed description of key rating drivers:

Key strengths

Experience of promoters in textile industry

Rajappan Balakrishnan, CEO, is a diploma holder in textile technology with nearly four decades of industry experience. He looks after the overall operations of the company. V Gaurav, CFO, is a Chartered Accountant with 12 years of experience and looks after the finance function. Moreover, Ravi Shanker Jalan (MD of GHCL) and Raman Chopra (CEO & Executive Director-Finance, GHCL) are the directors of GTL who have been facilitating healthy and steady growth of operations. GTL's in-house team also consists of experienced professionals who have guided the yarn business successfully through various economic cycles.

Long and established track record of operations

Started in 2002, GHCL's erstwhile yarn division (presently GTL) has a track record of over two decades of operations in the textile industry. Over the years, the company has expanded its operations to include open-end yarns, ring-spun yarns, blended yarns and fabrics. It has capacity of 225,000 ring spindles, 3,320 rotors, 480 vortex and 5,760 TFO Spindles with a balanced mix of cotton and synthetic yarn in its portfolio. Manufacturing infrastructure of GTL was established with machineries from reputed suppliers i.e. Rieter (Switzerland), Schlafhorst (Germany), Savio (Italy), Murata (Japan) and Trueztschler (Germany) among others.

Reputed and diversified customer base

Over the years, the company has refined its product and customer base with an increase in share of premium quality yarn in total sales. The company's customer base is diversified with top 10 customers accounting for 34% of its total income in FY24 (P.Y.: 43%). The company's customers include reputed companies such as Raymond Limited (rated 'CARE AA- (RWD)/ CARE A1+ (RWD)), Arvind Limited (rated 'CARE AA-; Stable/ CARE A1+), Indo Count Industries Limited (rated 'CARE AA-; Stable/

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

CARE A1+), and Shahi Exports Private Limited, among others. The company enjoys healthy relationship with these customers and receives repeat orders from them. Hence, GTL is expected to maintain customer diversification in the medium term. GTL has also increased its focus on geographical diversification and has witnessed growth in its export revenue over the past three years ended FY24. The company earned around 16% of its revenue from export market in FY24 as compared to 6% in FY21.

High operating efficiency backed by healthy capacity utilisation and high share of captive power consumption

GTL has consistently operated its installed capacity at over 90% in the past three years ended FY24. In FY24, company increased production of cotton yarn and synthetic blend yarn due to increased demand for the product, thereby increasing capacity utilisation on y-o-y basis.

GTL has installed capacity of 25.2 MW of windmill power plant and 32.0 MW solar power plant for captive consumption which reduce average power cost per unit. The company has also invested in hybrid power project to get power at cheaper rate under group captive power policy. These steps help in reducing power cost. In FY24, captive power consumption stood at 71% of power requirements (FY23: 70%).

Healthy sales volume growth with some recovery in operating profitability margin during FY24 albeit remained lower than envisaged

GTL's revenue in FY24 remained largely stable in FY24 over FY23 as 19% growth in sales volume supported by increase in export demand and change in product mix was offset by lower average sales realisation backed by correction in cotton prices. PBILDT margin improved to 8.14% in FY24 from 6.48% in FY23 supported by sales volume growth and absence of inventory losses during the year. Despite improvement in operating profitability margin, it remained lower than envisaged level due to subdued demand of textile products in USA and Europe thereby impacting cotton yarn spread. CARE Ratings expect GTL to grow its revenue by 10% in FY25 with PBILDT margin of around 10%.

Comfortable capital structure and debt coverage indicators

GTL had a strong net worth base of ₹1,386 crore as on March 31, 2024. The company has a comfortable capital structure marked by overall gearing and total outside liabilities (TOL) / tangible net worth (TNW) ratio of 0.05x and 0.09x respectively as on March 31, 2024. GTL is expanding its capacity of cotton yarn by 25,000 spindles with an estimated cost of around ₹215 crore which is expected to be funded through term loans of ₹50 crore and the balance through the internal cash accruals and incremental working capital borrowings. Despite the expected increase in debt level, CARE Ratings expects GTL's capital structure to remain comfortable backed by strong net worth base and accretion of profits to reserve.

The debt coverage indicators marked by interest coverage and total debt/PBILDT also remained comfortable in FY24 at 10.86x (PY: 9.16x) and 0.83x (PY: 1.17x), respectively. CARE Ratings expects GTL's debt coverage indicators to remain comfortable backed by improvement in profitability and cash accruals and lower reliance on external debt.

Liquidity: Strong

GTL has strong liquidity marked by the expectation of healthy cash accruals against low term debt repayment obligations. The company is envisaged to earn cash accruals of around ₹90-110 crore in FY25-FY26 per annum, which is expected to be adequate for meeting its annual term debt repayment obligation of around ₹18-25 crore. The company prepaid part of its term loans in Q4FY24 and Q1FY25 from cashflow from operations. With an overall gearing of 0.05x as on March 31, 2024, GTL has sufficient gearing headroom to raise debt if required. Its undrawn fund based working capital limit of ₹280 crore as on date along with strong current ratio of 5.92x as on March 31, 2024 provides cushion to its liquidity and expected to be more than adequate to meet its incremental working capital needs over the next more than one year.

Key weaknesses

Low return indicator

With continued moderate operating profitability margin, return indicator marked by ROCE remained low at around 3% in FY24 (FY23: 2%). Moreover, despite expected improvement in the operating profitability, CARE Ratings expects the ROCE to remain around 4%- 6% in the medium term.

Susceptibility to volatility in the raw material prices and foreign exchange rate fluctuations

The basic raw material consumed by GTL to produce yarn is raw cotton, which accounts for around 70% of the total revenue. The raw cotton prices are volatile in nature and depends upon factors such as area under production, yield for the year, vagaries of the monsoon, international demand-supply scenario, inventory carry forward from the previous year and minimum support price (MSP) decided by the government. The raw cotton prices have been volatile over the last couple of years, which translating into risk of inventory losses for the industry players; albeit at times it also leads to inventory gains. Collectively, these factors and intense competition in the industry contribute to low bargaining power of yarn manufacturers and volatility in profitability. GTL is also exposed to foreign currency rate fluctuation as the company derives around 16% of its revenue from the export market while it imports 10%-15% of its raw material requirement. Thus, the company's profitability margins remain susceptible to any adverse movement in the foreign exchange rate. However, GTL has a policy to hedge its foreign currency exposure through forward contracts, mitigating the forex exposure to an extent. GTL hedges 100% of its imports (rolling three months hedge) and over 50% of its exports on a gross basis.

Presence in fragmented, cyclical and competitive textile industry

GTL operates in a cyclical and fragmented textile industry marked by the presence of many organised and unorganised players leading to high competition in the industry. Apart from this, capacity additions by large players and the commoditised nature of cotton yarn also limits the pricing ability of the industry players to an extent. The textile industry is inherently cyclical in nature and closely follows the macroeconomic business cycles. The raw materials and finished goods prices are also determined by global demand-supply scenario, hence any shift in macroeconomic environment globally also impacts the domestic textile industry.

Industry outlook

With availability of low cotton inventory and improvement in operating efficiency, majority of cotton spinners reported all-time high revenue and profitability in FY22. However, owing to weak demand scenario of cotton yarn primarily in the export market and relatively high cotton prices in the domestic market, the cotton yarn spread reduced significantly in FY23 as compared to FY22 which in turn adversely impacted the operating profitability of Indian cotton spinners. With correction in cotton prices and subsequent increase in competitiveness of Indian spinners in global market, India's cotton yarn export recovered in FY24. India's cotton yarn export in terms of volume stood at 1,216 million (mn) kg in FY24 as compared to 664 mn kg in FY23 and 1,389 mn kg in FY22. Cotton prices in the domestic market is currently trading at around ₹58,000 per candy (around 356 Kg). After recovering demand in FY24, the demand is likely to see improvement in FY25 backed by continued strong export demand and demand from end user industries in domestic market. On a long-term basis, Indian cotton spinners are expected to maintain stable demand and profitability supported by increasing urbanisation, rising disposable income, China+1 strategy adopted by the major global retail players, free trade agreements (FTAs) with key export markets and various incentives from government such as Refund of Duties and Taxes on Exported Products (RoDTEP), Rebate of State and Central Taxes and Levies (RoSCTL), and Mega Integrated Textile Region and Apparel (PM MITRA) Parks among others.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Cotton Textile
Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Textiles	Textiles & apparels	Other textile products

GTL was incorporated in June 2020 to take over the erstwhile textile division (home textile and yarn division) of GHCL. However, GHCL divested its home textile in April 2022 by way of slump sale to Indo Count Industries Limited. Subsequently, GHCL announced a scheme of de-merger of its yarn division (located at Madurai, Tamil Nadu, having installed capacity of 2.25 lakh spindles) into GTL. The scheme became effective w.e.f. April 01, 2023. GTL got separately listed company on the stock exchange under the automatic route. On April 08, 2023, shareholders of GHCL became the shareholders of GTL.

Brief Financials (₹ crore)	March 31, 2023 (Prov.) ^	March 31, 2024 (A)
Total operating income	1,033	1,056
PBILDT	67	86
PAT	23	25
Overall gearing (times)	0.06	0.05
Interest coverage (times)	9.16	10.86

A: Audited; Prov.: Provisional; Note: 'these are latest available financial results'
FY24 was first Audited year for yarn business under GTL. ^ Indicative performance of erstwhile yarn division of GHCL.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	31-12-2027	17.21	CARE A-; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	500.00	CARE A-; Stable/ CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	-	100.00	CARE A2+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based/Non-fund-based-LT/ST	LT/ ST	500.00	CARE A-; Stable/ CARE A2+	-	1)CARE A-; Stable/ CARE A2+ (02-Jun-23)	-	-
2	Fund-based - LT-Term Loan	LT	17.21	CARE A-; Stable	-	1)CARE A-; Stable (02-Jun-23)	-	-
3	Non-fund-based - ST-Letter of credit	ST	100.00	CARE A2+	-	1)CARE A2+ (02-Jun-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in