Grauer and Weil (India) Limited

November 05, 2021

Ratings

Facilities / Instruments	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long-term Bank Facilities	100.00	**CARE AA-; Stable [Double A Minus; Outlook: Stable]**	Reaffirmed
Short-term Bank Facilities	45.00	**CARE A1+ [A One Plus]**	Reaffirmed
Total Facilities	**145.00 (Rs. One hundred forty five crore only)**		
Fixed Deposit	10.00	**CARE AA-(FD); Stable [Double A Minus (Fixed Deposit); Outlook: Stable]**	Reaffirmed
Total Medium-term Instruments	**10.00 (Rs. Ten crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and proposed Fixed Deposits (FD) of Grauer and Weil (India) Limited (GWIL) continue to derive strength from GWIL's leadership position in the domestic electroplating chemical industry where, it has around 30% market share along-with long-standing experience of its promoters in this business. The ratings also draw comfort from its moderately diversified earnings profile, established clientele, strong financial risk profile marked by healthy profitability, low leverage, strong debt coverage indicators and strong liquidity.

The above rating strengths are, however, tempered by GWIL's relatively moderate scale of operations with large part of income being contributed by surface finishing segment. The ratings also continue to remain constrained by the susceptibility of its profitability margin to raw materials price fluctuations, decline in income and profitability from the shoppertainment segment and its capex plans.

Rating Sensitivities

Positive Factors *(Factors that could lead to positive rating action/ upgrade)*

- Sustained improvement in PBILDT margins of over 25%
- Increase in the scale of operations with total operating income (TOI) above Rs.1,000 crore on a sustained basis
- Diversification of its revenue profile (both in terms of product and geography) with key product segment contributing not more than 30%-45% to its TOI

Negative Factors *(Factors that could lead to negative rating action/ downgrade)*

- PBILDT margin declining below 15% on a sustained basis
- Any debt-funded project (organic / inorganic) resulting in overall gearing increasing above 0.5x on sustained basis
- Substantial reduction in liquidity position (un-encumbered cash and investment in FD) below Rs.100 crore

Detailed description of the key rating drivers

Key Rating Strengths

Well-established position coupled with vast experience of the promoters in the domestic electroplating chemical industry

GWIL, with track record of over six decades in electroplating business continues to have leadership position in the domestic electroplating chemical industry with around 30% market share. GWIL is promoted by More family with Mr Umeshkumar More, currently serving as Chairman, being associated with the company since July 1969. His more than five decades of experience helps the company in strategic planning and expansion of the business. Mr Umeshkumar More is assisted by his son Mr Nirajkumar More (M.D), a Bachelor of Business Administration from U.K. Besides, the company has team of well-qualified professionals for heading various functional departments.

Moderately diversified revenue profile

The company's revenue profile is moderately diversified owing to its operations under different business divisions such as surface finishing (of which electroplating chemicals, paints & oil & lubricants are sub-divisions) engineering and shopping mall.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Furthermore, electroplating chemical division has wide basket of products and the chemicals manufactured by the company finds its application in various industries such as automobiles, consumer durables, gems and jewellery, etc. Thus, GWIL benefits from the well-diversified product portfolio of chemical segment. Moreover, the company is also involved in the manufacturing of industrial paints, which is the second-largest contributor to the company's revenue. The product profile in Paints include high performance industrial coatings (with applications in refineries, oil exploration, petrochemicals), Pipeline Coatings (duly approved by WRAS-UK and NSF –USA for application in drinking water pipelines, Irrigation water Intercity pipelines), Marine Coatings (having applications in ships for long life Anti-fouling coatings besides aerospace and defence coatings. The engineering division is involved in manufacturing and providing turnkey solution for electroplating plants, effluent treatment plants and other engineering products. Over 800 plants of varied types have been commissioned by division worldwide till now. Apart from the above, the company has shopping mall spread over 475,000 sq. ft. at Kandivali (Mumbai suburbs) with 247,000 sq.ft. of leasable area. Thus, the diversified revenue profile has helped the company to reduce its dependency as well as tide over any downturn in a particular business segment as was evident during FY21 (refers to the period April 1 to March 31) when income and profitability of shoppertainment segment had declined, the same was largely compensated by improved performance of its engineering division.

Stable revenue with healthy profitability margins
GWIL's TOI on a consolidated basis fell by only 2.03% on Y-o-Y basis to Rs.615.62 crore in FY21 despite adverse impact of Covid-19 pandemic on its H1FY21 operations. There was good recovery in demand post H1FY21 resulting in sharp recovery in performance of GWIL in balance part of FY21. On the back of Covid pandemic and subsequent restrictions, GWIL's shopping-cum-entertainment mall remained operational for only little part of FY21 leading to decline in the revenue of its shoppertainment segment from Rs.34.39 crore in FY20 to Rs.12.59 crore in FY21. However, the same was largely compensated by improved performance of its Engineering segment which reported much improved profitability with marginal growth in TOI. Accordingly, PBILDT margin of GWIL stood healthy at 18.25% during FY21 vis-à-vis 17.27% during FY20.

Comfortable capital structure and debt coverage indicators
Owing to its robust cash accruals, the company continues to finance its operational and capex requirements largely through internal accruals leading to strong capital structure marked by overall gearing of 0.04 times as on March 31, 2021. GWIL continued to have no long-term debt except the unsecured loans from promoters and lease liability. Also, with no major debt funded capex planned till FY24, the overall gearing of the company is expected to remain at comfortable level. On the back of very minimal debt and strong accruals, its debt coverage indicators also stood highly comfortable marked by Total Debt/GCA of 0.25 times and interest coverage of 39.47 times during FY21.

Liquidity: Strong
Liquidity of GWIL is marked by strong accruals against no term debt repayment obligations and liquid investments to the tune of Rs.256.22 crore on March 31, 2021, which largely continues as on September 30, 2021. With a gearing of 0.04 times as of March 31, 2021, the issuer has sufficient gearing headroom, to raise additional debt for its capex. Its current ratio continues to remain comfortable at 2.71 times with some improvement in its operating cycle to 84 days in FY21. Its entirely unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Key Rating Weaknesses
Moderate scale of operations with susceptibility of profitability to volatility in raw material prices and forex risk
Despite long-standing presence of GWIL in the business, its scale of operations has remained moderate and there was largely no growth in its TOI during the last three years ended FY21. In chemical segment, the company's raw materials are various kinds of metals, which are used in powder form for plating/coating, which continue to remain highly volatile. On the other hand, the industrial paints have crude oil derivatives as majority of its raw materials whereby prices of raw materials are linked to crude oil price, which is again volatile in nature.
In chemical division, GWIL has been largely able to pass on increase in raw material prices in a timely manner on the back of its leadership position in the electroplating chemical segment. However, as pricing for supply of industrial paints are decided at the time of bidding, the profit margins of paints division remain exposed to volatility in the input prices. Moreover, being relatively small player in this division, the pricing power is also low.
As the company's operations involve import/export of raw material and sales of its products, it involves transactions in foreign currencies which are done mostly in Yen, USD, and Euro. During FY21, the imports accounted for Rs.58.99 crore as against exports of Rs.60.57 crore. The company has policy of hedging majority of its imports; however, the receivables are normally kept open and hence are exposed to foreign exchange fluctuation.

Decline in income and profitability from shoppertainment segment
GWIL's mall houses reputed anchor tenants such as PVR, Big Bazar, Shoppers Stop, etc. Though income from the shoppertainment segment stood low, it contributes heavily to GWIL's profitability as its PBIT margin from this segment stood

at more than 68% till FY20. However, on the back of Covid-19 pandemic disruptions, the mall remained functional for a very limited period during FY21 impacting the revenue and profitability of GWIL from this segment. TOI from shoppertainment segment declined from Rs.34.39 crore in FY20 to Rs.12.59 crore in FY21. Also, correspondingly, PBIT from this segment declined from Rs.23.57 crore in FY20 to Rs.7.10 crore in FY21. Income and profitability from the segment are unlikely to reach its normalcy in FY22. However, with the gradually improved Covid situation and shifting from fixed rentals to revenue sharing model, the occupancy of the mall stood at more than 90% as on October 25, 2021.

Capex plans

GWIL has planned total capex of around Rs.150 crore in next three years period ending FY24 whereby majority of the capex pertains to expansion of its capacity for industrial paints, setting up a research & development centre, expanding capacity of its electroplating chemicals with some minor capex at each of its manufacturing facilities. Also, its earlier envisaged capex for mall expansion has been put on hold in the medium term. This capex programme is proposed to be entirely funded from internal accruals and from its available liquidity as it has no plan to avail any term debt for the same. Realization of envisaged returns from the capex would be critical to maintain its comfortable return on capital employed.

Analytical approach: Consolidated

CARE Ratings has considered consolidated financials for arriving at the rating of GWIL, as all its subsidiaries/associates are in the similar line of business. List of companies considered in its consolidation are shown as **Annexure 5**.

Applicable criteria:

Rating Outlook and Credit Watch
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Short Term Instruments
Manufacturing Companies

About the Company

GWIL, initially set up as a partnership concern in May 1940 by British nationals - Mr Grauer and Mr Weil, was taken over by 'More' family during 1991 subsequent to series of changes in promoters.

GWIL operates in three broad business segments: Surface finishing (accounted for 86% of revenues in FY21), Engineering (10% of revenues in FY21) and Shopping mall (2% of revenues in FY21). The Surface finishing segment comprises of chemical division, paints division and oil division. Under Chemical division, it manufactures and sells chemicals required for metal finishing (electroplating chemicals), their intermediates and other specialty chemicals. Under paints division, it manufactures industrial paints and under Oil division, it manufactures various oil and lubricants. The engineering segment is involved in manufacturing and providing turnkey solution for electroplating plants, effluent treatment plants and other engineering products. GWIL also owns a shopping-cum entertainment mall at Kandivali East (*Growels 101*), Mumbai.

Brief Financials – Consolidated (Rs. crore)	FY20 (A)	FY21 (A)	Q1FY22 (Prov.)
Total operating income	628.40	615.62	137.71
PBILDT	108.50	112.33	31.53
PAT	75.79	69.63	19.50
Overall gearing (times)	0.05	0.04	-
Interest coverage (times)	33.33	39.47	98.53

A: Audited; Prov.: Provisional; classified as per CARE Standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Please refer Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure-4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	100.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC		-	-	-	45.00	CARE A1+
Fixed Deposit (Proposed)		-	-	-	10.00	CARE AA- (FD); Stable

Annexure-2: Rating History of last three years

.Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	100.00	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Oct-20)2)CARE AA-; Stable (11-May-20)	1)CARE AA-; Stable (09-Dec-19)	1)CARE AA-; Stable (08-Oct-18)
2	Non-fund-based - ST-BG/LC	ST	45.00	CARE A1+	-	1)CARE A1+ (06-Oct-20)2)CARE A1+ (11-May-20)	1)CARE A1+ (09-Dec-19)	1)CARE A1+ (08-Oct-18)
3	Fixed Deposit (Proposed)	LT	10.00	CARE AA- (FD); Stable	-	1)CARE AA- (FD); Stable (06-Oct-20)	1)CARE AA- (FD); Stable (09-Dec-19)	1)CARE AA- (FD); Stable (08-Oct-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fixed Deposit (Proposed)	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: List of entities which have been consolidated in GWIL

Sr. No.	Name of the company	% shareholding of GWIL as on March 31, 2021
1	Grauer & Weil (Shanghai) Limited (in China)	100.00
2	Growel Chemicals Co. Limited (in Thailand)	100.00
3	Grauer & Weil (Thailand) Co. Limited	48.99
4	Grauer & Weil Engineering Private Limited	29.99
5	Growel Sidasa Industries Private Limited	49.80

Note on complexity levels of the rated instrument: *CARE Ratings has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact Us

Media Contact
Mradul Mishra
Contact Number: +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Hardik Shah
Contact Number: +91-79-4026 5620
Email ID- hardik.shah@careratings.com

Relationship Contact
Saikat Roy
Contact Number: +91-22-6754 3404
Email ID- saikat.roy@careratings.com

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