Garware Hi-Tech Films Limited

July 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	422.08 (Enhanced from 369.81)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Positive (Single A; Outlook: Positive)
Short Term Bank Facilities	198.19	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	**620.27 (Rs. Six Hundred Twenty Crore and Twenty-Seven Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Garware Hi-Tech Films Limited (GHFL; erstwhile known as Garware Polyester Limited) factors in the overall business risk profile driven by healthy topline growth and improved PBILDT margins backed by improved product mix and healthy capacity utilisation. The improvement in the PBILDT margins is also on back of decline in the raw material prices which are crude oil derivatives. The ratings also factors successful commissioning of the new product line, Paint Protection Film in April 2021 which is expected to further support revenue and margin growth going ahead. The rating revision also considers that GHFL will sustain the improvement in its financial risk profile, over the medium term, supported by steady cash generation.

The rating continues to derive strength from its established track record of more than five decades in polymer value chain industry, diversified product portfolio with wide geographical presence globally and integrated manufacturing facilities. The rating also takes cognizance of the fact that the debt coverage metrics continued to improve in FY21 driven by improved profitability and improved networth.

The rating strengths are however partially offset by susceptibility of its operating profit margin to volatility associated with key raw material which are derivative of crude oil, presence in intensely competitive industry and exposure to government regulation impacting the business. CARE would continue to monitor the status of predominantly debt funded capex being undertaken by GHFL for any kind of time / cost overruns and actual cash accruals against the estimates.

Rating Sensitivities:

Positive factors

- Increase in the total operating income above Rs.1500 crores on sustained basis.
- Return on capital employed improving beyond 25% on a sustained basis.
- Further revenue diversification through high contribution from new and or high value-added products on sustained basis.

Negative factors:

- Any large debt funded capex adversely affecting debt coverage and leverage indicators with gearing deteriorating above 0.50 times and TDGCA increasing above 2.50 times.
- Decline in interest coverage below 7.00 times on sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters & long track record of operations

GHFL was promoted by Shri S. B. Garware and Late Padmabhushan Dr.Bhalchandra (Abasaheb) Garware. GHFL has an established track record of more than five decades of operations in the flexible packaging industry. GHFL is one of the premier sun protection window film manufacturers and with global distribution network. Key decision-making is concentrated with promoters; however, they are well assisted by team of experienced professionals who look into the day-to-day operations. Second generation of promoter group (family members of key promoters) have already been inducted into the business and are working under mentorship of key promoters. Additionally, GHFL has a dedicated R&D department with continuous focus on increasing efficiency as well as introducing new value-added products.

Integrated operations and ability to manufacture a variety of polyester films
GHFL has capability to produce, around 300 variants of different thickness and features. Ability to modify the thickness and features of its products helps GHFL to adequately cater the diverse needs of its customers. In order to maintain the quality and consistency of various polyester film products, GHFL had in the past undertaken capital expenditure for integrating backwards. Through backward integration, GHFL now has developed a capability to change the properties of polyester chips beforehand to derive a variety of films from its lines. GHFL also has capability to undertake value addition on plain films so as to make them suitable for its application in electrical grade and high shrink films, Sun control films and BOPET based thermal lamination films.

Strong brand name and growing export base
GHFL's international accreditations and certifications for different products namely European Chemicals Agency, EU Regulation and others have resulted in strong marketing of its products. Company has developed patented technology for manufacturing the UV stabilised dyed films making it one of the premier window film manufacturer globally. It has developed strong distribution network with presence in around 80 countries via more than 5000 tinters spread across the globe thereby insulating it from regional risks. GHFL generated ~71% of its Total Operating Income from export sales which has been improving y-o-y. GHFL's products are marketed in the overseas locations by its wholly owned subsidiaries namely UK based Garware Polyester International Ltd. (GPIL) and USA based Global Pet Films (step down subsidiary of GPIL). Further, GHFL has sales and marketing teams in strategically important markets such as Russia, Malaysia and UAE. The Solar Control window films are sold under the brand name 'Global Window films' registered in USA and 'Garware Sun control' in domestic and export markets.

Diverting towards value added products coupled with healthy capacity utilization levels
GHFL has been operating at optimal capacities for product lines namely BOPET films and Sun control films. GHFL has a dedicated R&D department which focuses on increasing efficiency as well as introducing new value-added products (VAP). During last three years company has tweaked its product mix in favour of higher margin yielding products as against the commodity grade product. As a result, GHFL stopped production of commoditized product since FY18 and subsequently in FY19 and FY20, the production of thermal films was curtailed to have focus on high margin yielding product mix. The contribution of VAP (Sun films and Shrink films part of plain films) has been proportionately rising Y-o-Y and are high margin products due to their properties like high tensile strength, chemical & dimensional stability, rejection of harmful UV rays and others. Thus, higher contribution of VAP in total operating income has translated into improved operating profit margin for GHFL. The company has added a new product, Paint Protection Film (PPF) in its product portfolio in April 2021. The introduction of new product line will add on to the TOI of GHFL in FY22 with expected capacity utilisation of same being around 40% and PPF being a value added product base will help GHFL to book higher profit margins.

Improved operating performance supported by growing exports
TOI improved to Rs. 1002.41crore (PY: Rs.934.96 crore) in FY21 inspite of the operational constraints caused due to CoVID-19 lockdown impacting the sales of the company during Q1FY21. The growth in top line was attributed to increase in the sales realisation during FY21 owing to strong demand in the export market for the manufactured goods. Majority of the income (around 71%) generated by GHFL, was export oriented. GHFL reported expansion of over 480bps in its PBILDT margin for FY21 on account of weakening of raw material prices along with increased focus on sale of value-added products.

Comfortable financial structure and debt coverage metrics
GHFL reported improvement in its leverage as on March 31, 2021, overall gearing improved to 0.29x as compared to 0.35x as on Mar. 31, 2020. GHFL during the year availed term loan of Rs.100 crore to fund its capex for increase in the installed capacity of window film segment by around 75%. The increase in debt was compensated by accretion of profits earned during the year in the business strengthening GHFL's tangible networth. Further, the debt coverage indicators like Total Debt to GCA and interest coverage improved to 1.29 times and 11.84 times (PY: 1.74; 9.29, respectively), respectively during FY21 on back of higher profitability.

Efficient working capital management
The company is majorly into manufacturing of VAP thus its sales are majorly order backed. On an average, GHFL maintains an inventory holding period of around 45 days (considering the variety product portfolio) in order to cater to urgent export orders from its established clientele. The operating cycle increased marginally as on March 2021 to 38 days (PY: 33 days) on account of increase in inventory on back of commissioning of new product line (Paint Protection Film).

Key Rating Weaknesses
Susceptibility of profitability margins to volatility in raw material prices
The major raw material used for the production of PET films is PET resin, which is mostly manufactured in-house. Purified Terephthalic Acid (PTA) and Monoethylene Glycol (MEG) are the major raw materials used for manufacturing of PET resin which are mostly procured domestically. PTA and MEG, being derivatives of crude oil, their prices generally move in tandem with crude oil prices. Although raw material price hikes are pass through in nature on account of GHFL's ability to pass on price hike to customers with a moderate time lag, a sudden spike witnessed in crude oil prices may have marginal impact on profitability margins.
Foreign currency fluctuation risk
GHFL is exposed to foreign exchange fluctuation risk on its sales (as export form ~71% of total sales) and receivables. Though, it exports to various countries, its currency exposure is limited to USD (largest exposure), EUR (Euro) and Great Brittan Pound (GBP). Owing to large proportion of export income as against the miniscule foreign currency expenses, GHFL is exposed to foreign exchange fluctuation risk. However, GHFL manages this risk by availing forward contracts on its 100% net exposure.
Operations remain exposed to the government regulations
Given the environment hazards of plastics, the sector is directly affected by any government regulations or policies/announcements. In March 2011, the environment ministry imposed ban on the plastic packing of tobacco products. Further, the Supreme Court of India while deciding on the Public Interest Litigation, in their Judgment delivered on 27th April 2012 has banned the application of sun control films with effect from 4th May 2012 in India on the car windows. CARE notes that the management has taken adequate steps to mitigate the impact of such regulations on GHFL's operations. Sun control films are almost entirely sold in the export market. Though the company has successfully recovered from such adverse regulations; GHFL's business continues to be sensitive to such regulations.
Liquidity: Strong
The liquidity indicators of GHFL continue to remain strong on back of sufficient cushion available in its working capital limits with zero utilization of its fund-based limits during past 6 months ended May 2021. The gross cash accrual was healthy at Rs.178 crore during FY21 and unencumbered liquid investment of Rs.220 crore at end of March 31, 2021. Further, GHFL is expected to generate the cash accruals in range of Rs.150-180 crore during FY22. Thus, liquid investments and cash accruals would be more than sufficient to cover the debt repayment obligation of Rs.40 crore expected to be payable during FY22.

Analytical approach: To arrive at the ratings assigned to the bank facilities of GHFL, CARE has adopted the consolidated approach wherein the two wholly owned subsidiaries of GHFL have been consolidated. Details of the entities considered for consolidation are:

Name of Entity	Extent of consolidation	Rationale for consolidation
Garware Polyester International Limited	100%	Marketing arm for exports, Common management, business strategies and same promoters.
Global Pet Films Inc.	100%	

Applicable Criteria
Criteria on Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
Rating Methodology – Manufacturing Companies
Financial ratios – Non-Financial Sector
Consolidation and Factoring Linkages in Ratings

About the Company
Incorporated in 1957, GHFL, formerly known as Garware Polyester Limited, is engaged in manufacturing of polyester films, which are used in variety of end applications like Packaging, Electrical & Motor and Cable

Insulations, Shrink Film for label application, Coloured Polyester Films for Window Tint application, TV Screen, Safety etc. GHFL has been leading exporter of polyester films and holds patented technology for manufacturing the UV stabilized dyed films, these products are sold under the brand name 'Sun Control Films' and 'Global Window Films' in both domestic and exports market. Key application is commercial / residential buildings and automobiles. GHFL's manufacturing facilities are located at Waluj and Chikalthana (Aurangabad, Maharashtra), wherein it has capability to manufacture Bi-axially Oriented Polyethylene Terephthalate films [BOPET films; 42,096 Metric Tonnes Per Annum; (MTPA)], thermal lamination films (3,600 MTPA), sun control films (2,400 lakh sq. ft. PA. The company is in the process of increasing the capacity of sun control films by 1800 lakh sq.ft. PA.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/ facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	934.96	1002.41
PBILDT	171.45	231.94
PAT	86.02	125.95
Overall gearing (times)	0.35	0.29
Interest coverage (times)	9.29	11.84

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	April 2027	68.31	CARE A+; Stable
Non-fund-based - ST-BG/LC	-	-	-	198.19	CARE A1
Fund-based - LT-Term Loan	-	-	April 2027	204.76	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	86.32	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	62.69	CARE A+; 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-Term Loan	LT	68.31	CARE A+; Stable	-	1)CARE A; Positive (28-Sep-20)	1)CARE A; Stable (30-Sep-19) 2)CARE A-; Stable (02-Apr-19)	1)CARE A-; Stable (07-Apr-18)
2.	Non-fund-based - ST-BG/LC	ST	198.19	CARE A1	-	1)CARE A1 (28-Sep-20)	1)CARE A1 (30-Sep-19)	1)CARE A2+ (07-Apr-18)

							2)CARE A2+ (02-Apr-19)	
3.	Fund-based - LT-Term Loan	LT	204.76	CARE A+; Stable	-	1)CARE A; Positive (28-Sep-20)	1)CARE A; Stable (30-Sep-19) 2)CARE A-; Stable (02-Apr-19)	1)CARE A-; Stable (07-Apr-18)
4.	Fund-based - LT-Cash Credit	LT	86.32	CARE A+; Stable	-	1)CARE A; Positive (28-Sep-20)	1)CARE A; Stable (30-Sep-19) 2)CARE A-; Stable / CARE A2+ (02-Apr-19)	1)CARE A-; Stable / CARE A2+ (07-Apr-18)
5.	Fund-based - LT-Cash Credit	LT	62.69	CARE A+; Stable	-	1)CARE A; Positive (28-Sep-20)	1)CARE A; Stable (30-Sep-19) 2)CARE A-; Stable / CARE A2+ (02-Apr-19)	1)CARE A- / CARE A2+ (07-Apr-18)

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

Annexure-4: Complexity of various instrument rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE 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 no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact-1
Group Head Name: Ms. Arti Roy
Contact No: +91-22-6754 3451
Email ID- arti.roy@careratings.com

Analyst Contact-2
Rating Head Name: Mr. Sudarshan Shreenivas
Contact No: +91-22-6754 3566
Email ID- sudarshan.shreenivas@careratings.com

Relationship Contact
Name: Mr. Saikat Roy
Contact no. +91-22-6754 3404
Email ID: saikat.roy@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**