

## Garware Hi-Tech Films Limited

July 07, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	396.73 (Reduced from 422.08)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	198.19	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)
<b>Total Bank Facilities</b>	<b>594.92</b> <b>(₹ Five Hundred Ninety-Four Crore and Ninety-Two Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The long-term ratings of the bank facilities of Garware Hi-Tech Films Limited (GHFL) factors the healthy growth in operating performance of the company in FY22, supported by recovery in global economic scenario and improved demand in line with receding impact of covid. The revision in short-term rating is on account of the substantial improvement in liquidity profile of the company with higher cash & liquid investments balance and unutilized working capital limits and CARE's expectation that the company would continue to maintain it in the future, supported by stronger cashflow generation.

Higher demand from an improved product mix, capacity addition and healthy utilisation supported GHFL's growth during FY22. With anticipation of new lamination facility to commence production shortly and contribution from margin accretive value-added products gaining traction, the growth prospects of GHFL remain favourable. The rating also factors GHFL's comfortable financial risk profile and debt metrics. CARE expects the debt metrics to continue remaining comfortable with stronger cashflows, scheduled debt repayments and no additional debt-funded capex indicated in the next few years. The rating continues to derive strength from GHFL's established track record of more than five decades in polyester films industry, diversified product portfolio with wide geographical presence globally and integrated manufacturing facilities.

The rating strengths are however partially tempered by susceptibility of its operating profit margin to volatility associated with key raw materials which are derivatives of crude oil. Further CARE also factors that end user industries catered to by GHFL are highly sensitive to overall growth and stability of the global economy. CARE also takes into consideration GHFL's presence in a competitive industry and exposure to government regulation which could impact the business. Decline in high margin businesses or delay in ramping-up can have an adverse impact on company's growth outlook.

### Rating sensitivities

#### **Positive factors – Factors that could lead to positive rating action/upgrade:**

- Increase in the total operating income above Rs.2000 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 resulting in PBILDT margin above 25%

#### **Negative factors – Factors that could lead to negative rating action/downgrade:**

- 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
- Decline high margin businesses or decline in EBIDTA margins below 18%.

### 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.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Integrated operations and ability to manufacture a variety of polyester films**

GHFL has capability to produce, around 300 SKUs 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 has a capability to change the properties of polyester chips beforehand to derive a variety of films from its lines. GHFL also has fungibility between its lines and 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 wide global distribution network in export market**

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. The company has developed patented technology for manufacturing the UV stabilised dyed films making it one of the premier window film manufacturers globally. GHFL has developed a strong distribution network with presence in around 80 countries via more than 5000 tinters spread across the globe thereby insulating it from regional risks. 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. The overseas competitors are multinationals such as Eastman Group, Xpel, 3M etc who are in similar product line as GHFL. GHFL generated ~73% of its revenue from export sales in FY22 (P.Y. 73%) which has been increasing steadily from 52% in FY15. Going forward, management shall continue their focus on export markets, thus contribution from exports is expected to be similar.

**Scale-up in margin accretive value-added products and commercialization of capex to drive future growth**

With peak impact of Covid on global economy having bottomed out and economic prospects along with demand reviving thereafter, GHFL also delivered a strong operating performance for FY22 whereby it has earned record yearly revenues. It registered a y-o-y revenue growth of 32% from Rs. 998.11 crore in FY21 to Rs. 1318.37 crore in FY22. The capacity additions, upgradations and enhancements of existing capacities carried out in previous years along focus on value-added products have contributing to the growth. The company nevertheless continued to face challenges during FY22 on account of semiconductor shortage which slowed down automobile industry, container shortages, logistics disruptions and Russia-Ukraine conflict. Over the years, GHFL has transformed itself from a high-volume-low-margin commoditized polyester film company with products catering mainly to the industrial applications, to a leading consumer product company with a major share in value-add margin accretive products. The share of value-add products of the company has increased from 48% of overall revenues in FY17 to 76% in FY22. During FY21 & FY22 the company had undertaken a combined capex of Rs. 270 crore in two tranches of Rs. 135 crore each. The 1<sup>st</sup> tranche has been completed and the 2<sup>nd</sup> tranche related to a new lamination facility augmenting window film vertical having an estimated capacity of about 1,800 LSF p.a. is nearing completion. It is expected to achieve commercialization in Q2FY23. Going forward, higher growth will be mainly driven by incremental revenue contribution from newly commissioned lines and value-added products.

**Comfortable financial structure and debt coverage metrics**

Higher retained earnings in FY22 on the back of a strong financial performance strengthened the networth, although the company's LT debt increased from Rs. 133 crore as on March 31, 2021 to Rs. 182 crore as on March 31, 2022 to fund the expansion plan. GHFL reported improvement in its leverage as on March 31, 2022, Overall Gearing improved to 0.23x as on March 31, 2022 compared to 0.29x as on March 31, 2021. Further, the debt coverage indicators like Total Debt/GCA and interest coverage improved to 1.01x and 13.86x (PY: 1.27x & 11.62x, respectively), respectively during FY22. The debt metrics are expected to remain strong, with the new capacities to become fully operational and generate cashflows, along with reduction in debt by way of scheduled principal repayments. No additional debt-funded capex is indicated as per management articulation.

**Key rating weaknesses****Susceptibility of profitability margins to volatility in raw material prices and forex fluctuation**

Purified Terephthalic Acid (PTA) and Monoethylene Glycol (MEG) are the major raw materials for GHFL's products which are mostly procured domestically. PTA and MEG, being derivatives of crude oil, their prices move in line with crude oil prices. The crude prices had started undergoing substantial correction from mid-2020 onwards, since having nosedived during the 1<sup>st</sup> wave of covid. Additional factors such as disruption from Russia-Ukraine crisis, supply-demand mismatch, logistics constraints and freight rates resulted in raw material prices skyrocketing in FY22. The prices are continuing to exhibit an upward trend. Consequently PBILDT margin for FY22 briefly dipped y-o-y by 360 bps from 22.81% to 19.18%. Raw material price hikes are generally pass through in nature on account of GHFL's ability to pass on price hike to customers with a moderate time lag, however a sudden spike may result in longer absorption.

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 75% of its net exposure. GHFL reported forex gains for last 4 years in light of it being a net exporter and depreciating value of INR.

**Exposed to sluggishness in economy and global macro factors**

GHFL's products are mainly used in industries like automobiles, packaging, architectural, solar control, electrical and thermal insulation etc. which are correlated to overall growth and stability of global economy, any downturn can impact the growth outlook of the company in short to medium term. Product realisations have also fluctuated in the past depending on the demand-supply scenario. The global economy has been facing challenges on various fronts. Notably the Russia-Ukraine war resulted in a spike in

commodity prices, supply chain disruptions and inflationary concerns. Many economies have witnessed aggressive monetary policy tightening and fear of slowing economic growth.

### Operations remain exposed to the government regulations and geography specific risks in export markets

Given the environment hazards of plastics, the sector is directly affected by any government regulations or policies/announcements. Regulatory risk specific to a geography also exist. Some of the countries impose some regulations towards automotive films. For e.g. the Government of India has banned the usage of black films on car windows/windcreens and has also imposed ban on the plastic packing of tobacco products. CARE notes that the management has been taking adequate steps to mitigate the impact of such regulations on GHFL's operations.

### Liquidity: Strong

The liquidity of GHFL is strong having a sufficient cushion available in its working capital limits with 'Nil' utilization of its fund-based limits during last 12 months ended May 2022. The company maintained strong free cash balance of Rs. 99 crore and unencumbered liquid investments of Rs. 199 crore which further support the liquidity. The company is expected to generate GCA in excess of Rs. 200 crore as against scheduled debt repayments of ~Rs. 65crore for FY23, which reflects a comfortable position. There is no debt funded capex envisaged post commercialization of the new line. Management articulated that they would continue to maintain the liquidity buffer going forward and has not indicated any deployment in the medium term. Maintaining strong liquidity in the past has also enabled GHFL to withstand unprecedented events, such as onset of covid.

### 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 as on March 31, 2022 are:

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

### Applicable criteria

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

### About the company

Incorporated in 1957, Garware Hi-Tech Films Limited (GHFL), 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; 42,000 Metric Tonnes Per Annum; (MTPA)], thermal lamination films (3,600 MTPA), sun control films (2,400 lakh sq. ft. PA) and Paint Protection Films (PPF) of capacity of 300 LSF, to attain full capacity utilization in a staggered manner over next 2 years. The company is in the process of setup and expanding a new lamination window film manufacturing line by 1800 lakh sq.ft. PA.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)
Total operating income	1002.41	1318.37
PBILDT	231.94	252.89
PAT	125.95	167.18
Overall gearing (times)	0.29	0.23
Interest coverage (times)	11.84	13.86

A: Audited

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Not available

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

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	N/A	-	-	Mar-24	46.47	CARE A+; Stable
Non-fund-based - ST-BG/LC	N/A	-	-	-	198.19	CARE A1+
Fund-based - LT-Term Loan	N/A	-	-	Mar-27	201.25	CARE A+; Stable
Fund-based - LT-Cash Credit	N/A	-	-	-	149.01	CARE A+; Stable

**Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	46.47	CARE A+; Stable	-	1)CARE A+; Stable (06-Jul-21)	1)CARE A; Positive (28-Sep-20)	1)CARE A; Stable (30-Sep-19) 2)CARE A-; Stable (02-Apr-19)
2	Non-fund-based - ST-BG/LC	ST	198.19	CARE A1+	-	1)CARE A1 (06-Jul-21)	1)CARE A1 (28-Sep-20)	1)CARE A1 (30-Sep-19) 2)CARE A2+ (02-Apr-19)
3	Fund-based - LT-Term Loan	LT	201.25	CARE A+; Stable	-	1)CARE A+; Stable (06-Jul-21)	1)CARE A; Positive (28-Sep-20)	1)CARE A; Stable (30-Sep-19) 2)CARE A-; Stable (02-Apr-19)
4	Fund-based - LT-Cash Credit	LT	86.32	CARE A+; Stable	-	1)CARE A+; Stable (06-Jul-21)	1)CARE A; Positive (28-Sep-20)	1)CARE A; Stable (30-Sep-19) 2)CARE A-; Stable / CARE A2+ (02-Apr-19)
5	Fund-based - LT-Cash Credit	LT	62.69	CARE A+; Stable	-	1)CARE A+; Stable (06-Jul-21)	1)CARE A; Positive (28-Sep-20)	1)CARE A; Stable (30-Sep-19) 2)CARE A-; Stable / CARE A2+ (02-Apr-19)

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not available

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

Sr. No.	Name of 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

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the 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](mailto:care@careedge.in) for any clarifications.

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