

GLS Films Industries Private Limited (Revised)

May 18, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	103.00	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Assigned
Long Term / Short Term Bank Facilities	156.00	CARE BBB-; Negative / CARE A3 (Triple B Minus ; Outlook: Negative/ A Three)	Assigned
Short Term Bank Facilities	5.00	CARE A3 (A Three)	Assigned
Total Bank Facilities	264.00 (Rs. Two Hundred Sixty-Four Core Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

Rating assigned to GLS Films Industries Private Limited (GLSFIPL) derives strength from increasing scale of operations with increasing profitability margins y-o-y, albeit the profitability margins continue to remain moderate, diversified flexible packaging product profile with reputed clientele in FMCG sector, newly added customer in FY22 reflecting growing order book, experienced promoter in flexible packaging industry. However, ratings are constrained by susceptibility to volatility in raw material cost which is linked to crude oil prices and to demand-supply dynamics, highly leveraged capital structure considering corporate guarantee provided to GLS Polyfilms Private Limited (GLSPPL).

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Significant growth in scale of operation with TOI over Rs. 900 crores on sustained basis
- Improvement in profitability (PAT) margin to 3% and above
- Improvement in overall gearing at below 1x level on a continuous basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Increase in overall gearing above 2x on a continuous basis
- Decline in PBILDT margins below 5% on a sustained basis
- Delay in completion of new project of GLSPPL

Outlook: Negative

Negative Outlook has been assigned due to higher than anticipated increase in debt levels thus adversely impacting the debt metrics of the company, possible deterioration in profitability margins due to volatility of crude oil prices and also due to possible impact in higher working capital requirements which has not been factored by the company in the coming years

Detailed description of the key rating drivers

Key Rating Strengths

Increasing scale of operations with increasing profitability margins y-o-y, albeit the profitability margins continue to remain moderate

GLSFIPL has registered 8.5% CAGR during FY17-FY21 in its operating income. The revenues have been increasing y-o-y with the company registering sales of Rs 572 Crores during FY 21 vis -a-vis Rs 556 Crores during FY 20. The sales during FY 21 increased despite the company facing issues during the lockdown period when the operations were disrupted for around 2 months. During FY22, the company has witnessed significant growth in revenues with 12 months sales of approximately Rs. 738.57 Crores on account of y-o-y addition of new clients in their portfolio. CARE Ratings expects the revenues to grow further during FY 23 due to increased sales from new clients which have been added during FY 22.

The PBILDT margins of the company, although moderate, has seen improvement y-o-y basis. It has increased from 4.80% during FY 19 to 6.19% in FY 21. The PBILDT margins are projected to be moderated around 6.1% in the future.

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

Diversified flexible packaging product profile with reputed clientele in FMCG sector

GLSFIPL offers products which find applications in wide range of products like printed/unprinted laminated rolls, pouches, window metalized films, laminated tubes for food & beverage, FMCG, Industrial and Agro Products including snack foods, edible oils, rice & other cereals, pulses, beverages, tea & coffee, noodles, wheat flour, mouth fresheners, pan masala, shampoos & conditioners, hair oils, talcum powder, deodorants, tooth pastes, fragile and non-fragile industrial materials like Petroleum, Oil and Lubricants (POL), automotive and engineering components, electrical items, batteries, computer accessories, chemical compounds, garden fertilizers and plant nutrients. GLS's clientele includes prominent names like ITC, Prataap Snacks, Tata Global Beverages, Godfrey Philips India, Haldiram Manufacturing Co. Pvt Ltd, Amul, Nestle, Tata Consumers etc

Newly added customer in FY22 reflecting growing order book

Company registered higher than anticipated sales during FY22 due to addition of new customers and expected increased orders from such newly added customers in the coming years. The major new customers added during FY 22 include Amul, Nestle and Rasna. The company has registered sales of approximately Rs 738.57 Crores in FY22. The company expects orders of around Rs 300-350 Crores from Amul and Nestle alone in the coming years. The company expects around Rs 35 to 40 Cr per month order book from FY 23 onwards and to enable the same, the company decided to invest in new machinery thus leading to higher debt levels than anticipated before

Experienced promoter in flexible packaging industry

Promoters have more than 28 years of experience in flexible packaging industry. Professional management with defined roles and responsibilities. Promoter have established contacts for marketing and selling of flexible packaging products

Key Rating Weaknesses**Highly leveraged capital structure considering corporate guarantee provided to GLS Polyfilms Private Limited**

GLSFIPL has extended corporate guarantee to long term bank facility of its group entity GLSPPL and the guarantee is unconditional and irrevocable in nature and shall be enforced against the Guarantor for the entire tenor of the credit facility raised by GLSPPL. The said group exposure in the form of CG is Rs 316.40 Crores which is much higher than networth of GLSFIPL (CG is 3.34 times of TNW of Rs.94.73 crores as on Mar 31, 2021). Considering such corporate guarantee in adjusted total debt, the adjusted overall gearing of the company will be around 4.5x as on March 31, 2022 and reducing to below 3.00x as on March 31, 2024 due to significant reduction in debt levels of GLSPPL (Corporate Guarantee loan). In case of any cost overruns or delay in commencement of operations of GLSPPL, the financial profile of GLSFIPL will be adversely affected. Timely commencement of operations of GLSPPL with envisaged scale remains a key monitorable.

GLSFIPL's standalone overall gearing has deteriorated from 1.46x as on Mar 31, 2019 to 1.66x as on Mar 31, 2020 and 1.84x as on Mar 31, 2021 on account of increase in term loan borrowings availed for capex done in FY19 to FY21. Further, GLSFIPL's standalone overall gearing will be around 1.7x as on Mar 31, 2023 which is higher than earlier anticipated gearing around 1.1x as on Mar 31, 2023. The deterioration in the gearing is owing to increase in debt levels during FY22 and FY23 due to capex undertaken to meet the requirements of new clients acquired. Accordingly CARE Ratings expects the overall gearing of GLSFIPL will continue to remain at around 1.7 levels as on March 31, 2023 due to increase in the term loan borrowings. It may be noted that with higher turnover and volatility in raw material costs, the company may resort to higher than envisaged working capital borrowings in the coming years which may further deteriorate the overall gearing levels.

Susceptibility to volatility in raw material cost which is linked to crude oil prices and to demand-supply dynamics

Volatility in raw material prices which are linked to crude oil prices impacting profitability margins. With raw material accounting for nearly 88% to 90% of the total cost of sales, the volatility in the raw material prices can erode margins as the company may face issues in passing on the impact of such increased raw material prices to the consumer given the highly competitive pressures and commoditised nature of the industry. Any volatility in crude oil prices will impact the input cost and the given uncertainty regarding the crude oil prices, margins of the company may be strained going forward. While increase in input prices are passed on periodically, sudden increases can negatively impact margins. Besides, due to competitive pressure, manufacturers of plastic films may not be in a position to fully pass on the increase in input costs to their clients.

Liquidity: Adequate

GLSFIPL's expected GCA of Rs. 26.38 crores as on March 31, 2022 against repayment obligations of Rs. 6.30 crores in FY22. Company has free cash balance of Rs. 1 crore as on Feb 28, 2022. Average utilization of working capital limits is 94% in last 12 months ending Jan-22.

Analytical approach: Standalone

Standalone, however factoring linkages with GLS Polyfilms Private Limited where the company has provided Corporate Guarantee to the bankers of GLS Polyfilms Private Limited

Applicable Criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[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

GLS Films Industries Private Limited (GLSFIPL), a GLS Group company based in Gurugram and Faridabad having more than 28 years of experience in manufacturing of flexible packaging materials like printed/unprinted laminated rolls, pouches, window metalized films, laminated tubes for food& beverage, FMCG, Industrial and Agro Products. Mr. Rajesh Goyal, Group Chairman have more than 27 years of experience in manufacturing of different flexible packing solutions.

Their manufacturing set-up at Gurgaon has Rotogravure printing capabilities up to 9 colours and lamination capabilities to produce solvent based adhesive lamination, solvent free adhesive lamination and extraction lamination. The finishing operations is well equipped with technologies i.e. Shrink sleeves of PVC and PET in cut and roll form, UV cured coatings, water-based heat seal coatings, hot melt coated soap wrappers and regular formats of preformed pouches.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22(UA)
Total operating income	556.03	572.71	541.59
PBILD	29.56	35.47	28.92
PAT	9.31	9.02	10.20
Overall gearing (times)	1.66	1.84	NA
Interest coverage (times)	2.48	2.62	3.04

A: Audited UA: Unaudited NA: Not Available

Status of non-cooperation with previous CRA: N/A

Any other information: N/A

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

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

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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	June 2028	103.00	CARE BBB-; Negative
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	60.00	CARE BBB-; Negative / CARE A3
Fund-based - ST-Packing Credit in Foreign Currency		-	-	-	5.00	CARE A3
Non-fund-based - LT/ ST-BG/LC		-	-	-	96.00	CARE BBB-; Negative / CARE A3

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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	103.00	CARE BBB-; Negative				
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	60.00	CARE BBB-; Negative / CARE A3				
3	Fund-based - ST-Packing Credit in Foreign Currency	ST	5.00	CARE A3				
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	96.00	CARE BBB-; Negative / CARE A3				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities : N/A**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3	Fund-based - ST-Packing Credit in Foreign Currency	Simple
4	Non-fund-based - LT/ 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 instrument: CARE Ratings Ltd. 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.

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