Grauer & Weil (India) Limited

October 31, 2022

Ratings

Facilities	Amount (₹ 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 (₹One hundred and forty-five crore only)**		
Fixed deposit	10.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	**Reaffirmed**
Total instruments	**10.00 (₹ Ten crore only)**		

Details of facilities/instruments in Annexure-1

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities and proposed fixed deposits (FDs) of Grauer & 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 the long-standing experience of its promoters in this business. The ratings also draw comfort from its moderately-diversified earnings profile, established clientele, improved performance of its shoppertainment segment, strong financial risk profile marked by healthy profitability, low leverage, strong debt coverage indicators, and strong liquidity.

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

Rating sensitivities

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

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

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

- The PBILDT margin declining below 15% on a sustained basis.
- Any debt-funded project (organic or inorganic) resulting in the overall gearing increasing above 0.5x on a sustained basis.
- Substantial reduction in the liquidity position (un-encumbered cash and investment in FDs) below ₹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 a track record of over six decades in the electroplating business, continues to have a leadership position in the domestic electroplating chemicals industry, with around 30% market share. GWIL is promoted by the More family with Umeshkumar More currently serving as the Chairman, being associated with the company since July 1969. His rich experience of more than five decades helps the company in strategic planning and expansion of the business. Umeshkumar More is assisted by his son, Nirajkumar More, Managing Director, a Bachelor of Business Administration from UK. Besides, the company has a team of well-qualified professionals for heading various functional departments.

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

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 and lubricants are sub-divisions), engineering and shopping mall (shoppertainment). Furthermore, the electroplating chemicals division has a wide basket of products and the chemicals manufactured by the company find application in various industries such as automobiles, home fittings, consumer durables, gems and jewellery, etc. Thus, GWIL benefits from a well-diversified product portfolio in its 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 the WRAS-UK and the 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. During FY22, the company also forayed into the decorative paints segment and intends to leverage its industrial clientele base to increase its revenue from this segment. The engineering division is involved in manufacturing and providing turnkey solutions for electroplating plants, effluent treatment plants, and other engineering products. Over 800 plants of varied types have been commissioned by this division worldwide, up to date. Apart from the above, the company also has a shopping mall spread over 475,000 sq ft at Kandivali (Mumbai suburbs) with 247,000 sq ft of leasable area. The diversified revenue profile has helped the company reduce its dependency as well as tide over any downturn in a particular business segment, as was evident during the COVID-19 pandemic, when income and profitability of the shoppertainment segment had declined; the same was largely compensated by improved performance of its other two business segments.

Improved revenue with healthy profitability margins: GWIL's TOI, on a consolidated basis, increased by 26% on a y-o-y basis to ₹770.43 crore in FY22, led by growth in all the three business segments. The recovery in demand was primarily led by the automotive segment as well as the real estate segment in the domestic market. Despite being fully operational from October 2021 only, the shoppertainment segment witnessed a substantial growth of around 55% in its revenue during FY22 (refers to the period from April 1 to March 31). However, the PBILDT margin of GWIL stood slightly lower, at 15.02% in FY22 as compared with 16.53% in FY21 on account of higher raw material prices as well as increased power and fuel costs during the year.

Improved income and profitability of the shoppertainment segment, likely to sustain going forward: GWIL's mall houses reputed anchor tenants such as PVR, Shoppers Stop, etc. Although contribution in the total revenue 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% up to FY20. However, on the back of the COVID-19 pandemic disruptions, the mall remained functional for very limited period up to H1FY22, impacting the revenue and profitability of GWIL from this segment. The mall started its operations on a full-fledged basis only after October 2021. Thereafter, the recovery was rapid with increased footfalls and a shift from fixed rentals to revenue-sharing with the minimum guarantee model, leading to an improvement of around 55% in the revenue from this segment in FY22. The TOI from the shoppertainment segment increased from ₹12.59 crore in FY21 to ₹19.55 crore in FY22. Furthermore, correspondingly, the PBIT from this segment also improved from ₹7.10 crore in FY21 to ₹12.50 crore in FY22. Income and profitability from the segment are likely to reach its pre-COVID-19 levels in FY23. With the upcoming festive season as well as the pent-up consumer demand, the revenue as well as profitability from this segment is expected to continue to improve in the balance part of FY23.

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 a strong capital structure, marked by an overall gearing of 0.04x as on March 31, 2022. GWIL continued to have no long-term debt except unsecured loans from the promoters and lease liabilities. Moreover, with no major debt-funded planned capex, the overall gearing of the company is expected to remain at a comfortable level. On the back of minimal debt and strong accruals, its debt coverage indicators also stood highly comfortable, marked by total debt (TD)/gross cash accruals(GCA) of 0.25x and interest coverage of 35.71x during FY22.

Liquidity: Strong

The liquidity of GWIL is marked by strong accruals against no term debt repayment obligations and liquid investments to the tune of ₹273.89 crore on March 31, 2022, which largely continues as on September 30, 2022. With a gearing of 0.04x as on March 31, 2022, the issuer has sufficient gearing headroom to raise additional debt for its capex. Its current ratio continues to remain comfortable at 2.96x, with some improvement in its operating cycle to 73 days in FY22. Its largely unutilised bank lines are more than adequate to meet its incremental working capital needs over the next year.

Key rating weaknesses

Moderate scale of operations with susceptibility of profitability to volatility in raw material prices and forex risk: Despite the long-standing presence of GWIL in the business, its scale of operations remained moderate and there was largely no growth in its TOI during the three years ended FY21. The TOI in FY22 grew by around 27%, partly due to higher raw material

prices. In the chemical segment, the company's raw materials are various kinds of metals, which are used in powder form for plating and 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 the prices of raw materials are linked to crude oil prices, which is again volatile in nature. In the chemical division, GWIL has been largely able to pass on the 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 the paints division remain exposed to the volatility in input prices. Moreover, being a relatively small player in this division, the pricing power is also low.
As the company's operations involve the import and export of raw materials and the sales of its products, it involves transactions in foreign currencies, which are done mostly in Yen, US Dollar, and Euro. During FY22, the imports accounted for ₹89.23 crore as against exports of ₹70.90 crore. The company has a policy of hedging majority of its imports; however, the receivables are normally kept open, and hence, are exposed to foreign exchange fluctuations.

Moderate capex plans: GWIL has planned a total capex of around ₹130 crore in the next three years period ending FY25, whereby the majority of the capex pertains to expansion of its capacity for industrial paints, setting up a research and development (R&D) centre, and 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 plans to avail any term debt for the same. Realisation of the envisaged returns from the capex will be critical to maintain its comfortable return on capital employed (ROCE).

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered the consolidated financials for arriving at the ratings of GWIL, as all its subsidiaries and associates are in the similar line of business. The list of companies considered in its consolidation are shown as Annexure-4.

Applicable criteria

Criteria on assigning outlook to credit ratings
CARE Ratings' policy on Default Recognition
Financial ratios – Non-financial sector
Rating methodology – Manufacturing companies.
Criteria for Short Term Instruments
Rating methodology – Consolidation
Liquidity analysis of non-financial sector entities

About the company

GWIL, initially set up as a partnership concern in May 1940 by British nationals – Grauer and Weil, was taken over by the More family in 1991, subsequent to a series of changes in the promoters.
GWIL operates in three broad business segments – surface finishing (accounted for 88% of revenues in FY22), engineering (9% of revenues in FY22), and shopping mall (3% of revenues in FY22). The surface finishing segment comprises the chemicals division, paints division, and oil division. Under the chemical division, it manufactures and sells chemicals required for metal finishing (electroplating chemicals), their intermediates, and other specialty chemicals. Under the paints division, it manufactures industrial paints and under the oil division, it manufactures various oil and lubricants. The engineering segment is involved in manufacturing and providing turnkey solutions for electroplating plants, effluent treatment plants, and other engineering products. GWIL also owns a shopping-cum-entertainment mall at Kandivali East (Growels 101), in Mumbai.

Brief Financials – Consolidated (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (Prov.)
TOI	604.96	770.43	198.86
PBILDT	100.02	115.75	39.90
PAT	68.81	78.77	28.83
Overall gearing (times)	0.04	0.04	NA
Interest coverage (times)	35.05	35.71	90.68

A: Audited; Prov: Provisional; NA: Not available.
Financials classified as per CARE Ratings' standards.

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 applicable

Complexity level of the various instruments rated for this company: Annexure 3

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
Fixed Deposit		-	-	-	10.00	CARE AA-; Stable
Fund-based - LT-Cash Credit		-	-	-	100.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC		-	-	-	45.00	CARE A1+

Annexure-2: Rating history of 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-Cash Credit	LT	100.00	CARE AA-; Stable	-	1)CARE AA-; Stable (05-Nov-21)	1)CARE AA-; Stable (06-Oct-20) 2)CARE AA-; Stable (11-May-20)	1)CARE AA-; Stable (09-Dec-19)
2	Non-fund-based - ST-BG/LC	ST	45.00	CARE A1+	-	1)CARE A1+ (05-Nov-21)	1)CARE A1+ (06-Oct-20) 2)CARE A1+ (11-May-20)	1)CARE A1+ (09-Dec-19)
3	Fixed Deposit	LT	10.00	CARE AA-; Stable	-	1)CARE AA-(FD); Stable (05-Nov-21)	1)CARE AA-(FD); Stable (06-Oct-20)	1)CARE AA-(FD); Stable (09-Dec-19)

* Long term/Short term

Annexure-3: Complexity level of various instruments rated for this company

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

Annexure-4: List of entities that have been consolidated in GWIL

Sr. No.	Name of the Company	% shareholding of GWIL as on March 31, 2022
1.	Grauer & Weil (Shanghai) Limited (in China)	100.00
2.	Growel Chemicals Co. Limited (in Thailand)	100.00
3.	Grauer & Weil Engineering Private Limited	29.99
4.	Growel Sidasa Industries Private Limited	49.80

Annexure-5: Bank lender details for this company

To view the lender-wise details of the 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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About CARE Ratings Limited:

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