Garware Polyester Limited

April 02, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long Term Bank Facilities	290.22	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	198.19	CARE A2+ (A Two Plus)	Reaffirmed
Total Facilities	**488.41 (Rupees four hundred eighty eight crore and forty one lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Garware Polyester Limited (GPL) continue to derive strength from its established track record of more than five decades in polymer value chain industry, diversified product portfolio with wide geographical coverage and integrated manufacturing facilities

The ratings also factors in the improvement in operating performance marked by consistently high capacity utilization level witnessed during last couple of years, improved focus on value added products translating into expansion in its operating profit margin (for FY18 and 9MFY19). Rating also takes cognizance of fact that the leverage indicators have improved (as on Mar. 31, 2018) on back of substantial repayment made towards working capital limits. The contraction in working capital debt was achieved by managing operating cycle which turned negative for FY18 resulting in less capital being deployed for funding net working capital gap and same resulted in improved cash flow from operations for FY18.

The rating strengths, however, are tempered on account of 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 risk of change in government regulation impacting the business.

Any large debt funded capex adversely impacting debt coverage & leverage indicators and substantial contraction in operating profit margin would be key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters & long track record of operations

GPL was promoted by Shri S. B. Garware and Late Padmabhushan Dr. Bhalchandra (Abasaheb) Garware. The company has an established track record of more than five decades of operations in the flexible packaging industry. 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 of group. Second generation of promoter group (family members of key promoters) has already been inducted into the business and are working under mentorship of key promoters. Additionally, the company has a dedicated R&D department with continuous focus on increasing efficiency as well as introducing new value-added products. GPL is one of the premier window film manufacturers.

Diversified product portfolio with well integrated operations

GPL has capability to produce, around 300 variants of different thickness and features; which translates into the diversified product base having varied end use applications. In order to maintain the quality and consistency in quality of various polyester film products, GPL in past has undertaken capex for integrating backwards.

Strong brand name and wide distribution network

GPL has developed strong distribution network with presence in around 80 countries in the world indicating high acceptability for its products thereby insulating it from any regional risks. Further the company's products are marketed in the overseas locations by its subsidiary companies namely UK based Garware Polyester International Ltd. (GPIL) and USA based Global Pet Films (step down subsidiary of GPIL). Further, GPL 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 Suncontrol' in domestic and export markets. The company's revenue base is a mix of domestic and export markets with exports forming 60% of the total revenue (P.Y: 56%).

Focus on value added product

GPL has been operating at optimal capacities for all product lines namely BOPET films, Thermal films, BOPP films and Sun control films. Further, the company has a dedicated R&D department with continuous focus on increasing efficiency as

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

well as introducing new value-added products; which has resulted in improvement in the profitability margins. Further, during FY18, GPL has stopped manufacturing BOPP which has led to marginal decline in sales in FY18, but sales have normalised over 9MFY19 due to increase of sales contribution from value added products.

Improvement in profitability margins and debt coverage indicators

During FY18, GPL on a consolidated basis, has achieved total income of Rs.839 crores in FY18 as against Rs.883 crore in FY17, with a de-growth of 5%. However, during FY18, profitability parameters improved as compared to FY17. PBILDT margins improved at 10.46% (as compared to 9.10% in FY17) and further improved in 9MFY19,(standalone) to 15.22% on account of high contribution from Value added products (VAP). In FY18, PAT margin improved at 4% (as compared to 2.54% in FY17) and further increased to 7% in 9MFY19 (standalone) due to reduction in interest cost as high cost debt was refinanced through low cost debt.

GPL reported improvement in its leverage as on Mar. 31, 2018, overall gearing improved to 0.46x as on Mar. 31, 2018 as compared to 1.19x as on Mar. 31, 2017. The improvement was on account of substantial reduction (of around Rs.250 crore) in overall debt level, wherein, GPL has repaid the large portion of short term working capital debt and has partially replaced some portion by availing the long term debt (of Rs.136 crore), which is also reflected through its lower interest cost for FY18 and 9MFY19. Thus, repayment and accretion to net worth led to improvement in overall gearing. Lowering of interest cost coupled with improved operating profit margin led to improvement in interest cover for both FY18 and 9MFY19. Other debt coverage indicator like total debt to GCA too improved during FY18.

Key Rating weakness:

Susceptibility of profitability margins to volatility in raw material prices and foreign exchange fluctuations

The major raw material used for the production of PET films is PET resin, which is mostly manufactured in-house. PTA and MEG, being derivatives of crude oil, their prices move in tandem with crude oil prices. With raw material costs forming around 47% of total operating income in FY18 (PY: 58%), GPL's profitability margins remain susceptible to any adverse movement in the prices of raw materials.

GPL is also exposed to foreign currency risks on account of exports (forming 59% of the total sales in FY18 (PY: 50%)) and imports of special chemicals/adhesives. However imports and exports are majorly backed by letter of credit denominated in foreign currency and thus gets naturally hedged

Sensitivity of the company's operations 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. Though the company has successfully recovered from such adverse regulations, however GPL's business continues to be sensitive to such regulations.

Liquidity analysis:

Operating cycle witnessed substantial shrinkage and tuned negative during FY18, GPL was able to reduce both inventory and receivables during the year coupled with higher credit through its creditors. This led to substantial cash flow generation from working capital changes during FY18. The cash flow post working capital changes had improved to Rs.134 crore during FY18 as compared to Rs.77 crore during FY17. The Average working capital utilization levels stood at around 44% for twelve months ending February 2019 (53% for twelve months ending December 2017) Thereby, indicating improving liquidity position of the company.

Analytical approach - Consolidated

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Financial ratios - Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings

About The Company

Incorporated in 1957, Garware Polyester Limited (GPL) 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, sequin, Safety etc.

GPL 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.

GPL'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).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	868.17	838.85
PBILDT	77.78	87.76
PAT	19.73	33.12
Overall gearing (times)*	0.89	0.46
Interest coverage (times)	2.45	2.96

A: Audited
**overall gearing is calculated on tangible net worth*

Status of non-cooperation with previous CRA: Not Applicable

Any Other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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.*

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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	-	-	-	140.22	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	198.19	CARE A2+
Fund-based - LT/ ST-Cash Credit	-	-	-	86.32	CARE A-; Stable / CARE A2+
Fund-based - LT/ ST-EPC/PSC	-	-	-	63.68	CARE A-; Stable / CARE A2+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	28.52	CARE A-; Stable	1)CARE A-; Stable (07-Apr-18)	-	1)CARE A- (03-Feb-17)	1)CARE BBB+ (06-Jan-16)
2.	Non-fund-based - ST-BG/LC	ST	198.19	CARE A2+	1)CARE A2+ (07-Apr-18)	-	1)CARE A2+ (03-Feb-17)	1)CARE A2 (06-Jan-16)
3.	Fund-based - LT-Term Loan	LT	111.70	CARE A-; Stable	1)CARE A-; Stable (07-Apr-18)	-	1)CARE A- / CARE A2+ (03-Feb-17)	1)CARE BBB+ / CARE A2 (06-Jan-16)
4.	Fund-based - LT/ ST-Cash Credit	LT/ST	86.32	CARE A-; Stable / CARE A2+	1)CARE A-; Stable / CARE A2+ (07-Apr-18)	-	1)CARE A- (03-Feb-17)	1)CARE BBB+ (06-Jan-16)
5.	Fund-based - LT/ ST-EPC/PSC	LT/ST	63.68	CARE A-; Stable / CARE A2+	1)CARE A- / CARE A2+ (07-Apr-18)	-	1)CARE A2+ (03-Feb-17)	1)CARE A2 (06-Jan-16)

Annexure -3 – Basis of Consolidation

Name of Entity	Extent of consolidation	Rationale for consolidation
Garware Polyester International Limited	Full	Marketing arm for exports, Common management, business strategies and same promoters

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