Garware Polyester Limited

April 7, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long Term Fund Based -Term Loan	170.37 (enhanced from 89.84)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long/Short Term Fund Based - CC/EPC/PCFC	150.00 (reduced from 179.79)	CARE A-; Stable/ CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Reaffirmed
Short Term Non Fund Based - LC/BG	198.19 (reduced from 399.95)	CARE A2+ (A Two Plus)	Reaffirmed
Total Facilities	**518.56 (Five hundred Eighteen crore and Fifty Six lakh**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the rating assigned to the bank facilities of Garware Polyester Ltd (GPL) continue to derive strength from its established track record in the flexible packaging industry, experienced management, presence in various geographies and diversified product portfolio.The rating also takes into account improvement in utilization of working capital limits during the last 12 months ended December 2017 with availability of additional credit from a key supplier.

These rating strengths however continue to be constrained by lower sales with stagnant profitability despite increase in profitability margins and relatively low (and declining) returns on capital employed. The ratings also take into account fluctuation in the prices of raw materials and forex movements imparting volatility to the profitability and cyclical, competitive and fragmented nature of the industry.

The ability of the company to achieve profits at the envisaged levels and any large debt funded capex adversely impacting debt coverage metrics are key rating sensitivities.Additionally, any adverse government regulation which may have an impact on the companyoperations is a key rating monitorable.

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 whereby the company is supported by highly qualified and experienced management personnel. Additionally, the company has a dedicated R&D department with continuous focus on increasing efficiency as well as introducing new value-added products.

Diversified product portfolio: The company has manufacturing facilities with presence of both backward and forward integration with producing 300 variants of product with different sizes and shapes; the company has diversified product base having varied end use applications in various industries like printing, consumer goods, electrical, packaging, chemical, textile, auto ancillary and others; thereby mitigating the risk of any specific industry down turn and to efficiently compete in the market.

Strong brand name and wide distribution network: GPL has developed strong distribution network with presence in around 82 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. and USA based Global Pet Films. The company's revenue base is a mix of domestic and export markets with exports forming 56% of the total revenue.

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

Stable operational performance: 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 well as introducing new value-added products; which has resulted in improvement in the profitability margins.

Improvement in capital structure with moderatedebt coverage indicators: Capital structure improved from 1.05x as on March 31, 2016 to 0.89x as on March 31, 2017 due to scheduled debt repayments and accretion to reserves. Despite improvement due to higher cash accruals, debt coverage indicators remain relatively weak with total debt to GCA from 8.57x in FY16 to 7.21x in FY17and interest cost interest coverage ratio at 1.95x in FY16 2.45x in FY15.

Key Rating Weaknesses

Moderate profitability margins: During FY17, the company reported total income of Rs.868.17 crore vis-à-vis Rs.852.82 crore in FY16 and PBILDT margin marginally declined to 8.96% (PY: 9.83%); however in 9MFY18 the total income of the company declined to Rs.616.50 crore vis-à-vis Rs.672.30 crore in 9MFY17 and PBILDT margins improved at 9.87% (PY: 9.01%) due to high contribution from VAP. In FY17 PAT margin marginally improved at 2.27% (PY: 2.04%) due to reduction in interest cost. However, gross cash accruals (GCA) has largely remained at the same levels. Also, in 9MFY18 PAT margin further improved to 3.45% from 2.39% in 9MFY17.

Relatively low returns on capital employed (ROCE): ROCE deteriorated from 9.20% as on March 31, 2016 to 8.41% as on March 31, 2017 mainly due to reduced PBIT from Rs.67.01 crore in FY16 to Rs 60.41 in FY17; However during 9MFY18 PBIT marginally improved from Rs.50.33 crore to Rs.51.07 crore. Despite this improvement ROCE continues to remain relatively low.

Improved but moderate working capital cycle: The company has been efficiently managing its working capital cycle with operating cycle of around 64 days in FY17 (FY16: 75 days). The raw material requirement viz. PTA, MEG and Polymer along with majority of the other chemicals and adhesives are procured from the domestic market in India and only 12% of the raw material consumption is imported. As per management during FY18 the company has been able to get better terms from a key supplier in place of LCs, as a result it has improved non-fund based utilisation. The Average working capital utilization levels stood at around 53% for twelve months ending December 2017 (58% for twelve months ending November 2016) Thereby, indicating improving liquidity position of the company.

Susceptibility to volatility in raw material prices: The major raw materials consumed are Purified Terepthalic Acid (PTA) and Mono-Ethylene Glycol (MEG); both being derivative of crude oil are continuously affected by movement in crude oil prices. Further, key raw material has to be purchased from bigger players; therefore bargaining power of the company remains low. Hence, any adverse volatility in the raw material prices may affect the company's margins, however the company is able to pass on this to its customers.

Foreign currency fluctuation risk: GPL is exposed to foreign currency risks on account of exports (forming 55% of the total sales in FY17 (PY: 56%)) 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. Further the risk prevails to cover the un-hedged portion of the exposure, which is monitored by the company's in-house team and accordingly enters into forward contracts on order-to-order basis.

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.

Analytical approach - Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial ratios – Non-Financial Sector]
[Criteria for Short Term Instruments]
[Rating Methodology-Manufacturing Companies]

About The Company

Incorporated in 1957, GPL is engaged in manufacturing of Bi-axially Oriented Polyethylene Terephthalate films (BOPET films; 42,096 MTPA), thermal lamination films (3,600 MTPA), sun control films (2,400 lakh sq. ft. PA) and Bi-axially oriented polypropylene film (BOPP film; 16,500 MTPA). The company was co-promoted by the chairman and Managing Director Mr. S.B. Garware along with Late Padmabhushan Dr. Balchandra (Abasaheb) Garware.The company has diversified product portfolio with more than 300 product ranges having more than 200 clientele and exports to over 80 countries in the past six decades of operations. These films have multiple usages in manufacturing of flexible packaging, food packaging, FMCG, cable insulation, LCD screen, magnetic media, metallic yarn etc., while sun control films find its applications in automobiles and real estate sectors. The Company is continuously increasing its value added product portfolio by focusing on speciality products like Paint protection film, Bio degradable films, etc. The company has manufacturing facilities at Aurangabad and Nashik and which possess patented technology for the same.Additionally During past one – two yearsthe company has opened offices in Malaysia, Russia, and GCC region.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	852.82	868.17
PBILDT	83.85	77.78
PAT	17.39	19.73
Overall gearing (times)	1.05	0.89
Interest coverage (times)	1.95	2.45

A: Audited

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	-	-	-	58.67	CARE A-
Non-fund-based - ST-BG/LC	-	-	-	198.19	CARE A2+
Fund-based - LT-Term Loan	-	-	-	111.70	CARE A-
Fund-based - LT/ ST-Cash Credit	-	-	-	86.32	CARE A- / CARE A2+
Fund-based - LT/ ST-EPC/PSC	-	-	-	63.68	CARE A- / 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	58.67	CARE A-	-	-	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+ (03-Feb-17)	1)CARE A2 (06-Jan-16)
3.	Fund-based - LT-Term Loan	LT	111.70	CARE A-	-	-	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- / CARE A2+	-	-	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- / CARE A2+	-	-	1)CARE A2+ (03-Feb-17)	1)CARE A2 (06-Jan-16)

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