Garware Polyester Limited

September 28, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	369.81 (Enhanced from 288.97)	**CARE A; Positive (Single A; Outlook: Positive)**	Ratings Reaffirmed; Outlook revised from Stable to Positive
Short term Bank Facilities	198.19	**CARE A1 (A One)**	Reaffirmed
Total Facilities	568.00 (Rupees five hundred sixty eight crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating 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 globally and integrated manufacturing facilities.

The ratings also continue to factor in the improvement in operating performance marked by consistently high capacity utilization level witnessed during last couple of years and improved focus on value added products translating into expansion in its operating profit margin (for FY20 and Q1FY21). Rating also takes cognizance of the fact that the leverage indicators continued to improve in FY20 on back of scheduled repayment of its debt obligations. In line with government-imposed lock down to control of CoVID-19 spread, the operations of GPL were impacted during April 2020. However, gradual recovery is witnessed marked by improved capacity utilization levels and monthly average sales clocking back to pre CoVID sales.

The above-mentioned rating strengths continue to remain tempered by 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.

CARE would continue to monitor the status of predominantly debt funded capex being undertaken by GPL for any kind of time / cost overruns and actual cash accruals against the estimates.

Outlook: Revised to 'Positive' from 'Stable'

The revision in outlook factors in the CARE's belief that the operating profit margins are expected to expand further owing to sustained shift in product mix coupled with moderation in key raw material prices as most of them are crude oil derivative. Further, the capex being undertaken will provide adequate diversification to product portfolio and support the margin expansion as newer products are value added products.

The outlook may be revised to Stable in case the GPL is not successful in commissioning its new product line as envisaged or any decline in the liquid investments leading to deterioration in the net debt and adjusted gearing levels.

Rating Sensitivities:

Positive factors

- Increase in the total operating income above Rs.1300 crores on sustained basis.
- Return on capital employed improving beyond 25% on a sustained basis.
- Successful commissioning of the new product, Paint Protection Film as envisaged by CARE, resulting in further expansion in operating profit margins above 20%.

Negative factors:

- Any large debt funded capex adversely affecting debt coverage and leverage indicators with TD/GCA increasing above 3.50x on sustained basis
- Decline in interest coverage below 7.00 times on sustained basis.

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

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. GPL has an established track record of more than five decades of operations in the flexible packaging industry. GPL is one of the premier sun protection window film manufacturers and its distribution network is spread globally. 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, GPL 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.

Integrated operations and ability to manufacture a variety of polyester films
GPL has capability to produce, around 300 variants of different thickness and features. Ability to modify the thickness and features of its products helps GPL to adequately cater the diverse needs of its customers. In order to maintain the quality and consistency of various polyester film products, GPL had in the past undertaken capital expenditure for integrating backwards. Through backward integration, GPL now has developed a capability to change the properties of polyester chips beforehand to derive a variety of films from its lines. GPL also has 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 coupled with strong export base
GPL's international accreditations and certifications for different products namely European Chemicals Agency, EU Regulation and others have resulted in strong marketing of its products. GPL has developed patented technology for manufacturing the UV stabilised dyed films. It has developed strong distribution network with presence in around 80 countries in the world indicating high acceptability for its products thereby insulating it from regional risks. GPL generated 65-70% of its Total Operating Income from export sales. GPL'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 Sun control' in domestic and export markets.

Elevated focus on value added products coupled with healthy capacity utilization levels
GPL has been operating at optimal capacities for product lines namely BOPET films and Sun control films. GPL has a dedicated R&D department which focuses on increasing efficiency as well as introducing new value-added products. GPL during last three years has tweaked its product mix in favour of higher margin yielding products as against the commodity grade product. As a result, GPL stopped production of BOPP films (commoditized product) since FY18 and subsequently in FY19 and FY20, the production of thermal films was curtailed to have focus on high margin yielding product mix. The contribution of value added products (Sun films and Shrink films part of plain films) has been proportionately rising Y-o-Y since FY18. These value added products are high margin products due to their properties like high tensile strength, chemical & dimensional stability, rejection of harmful UV rays and others. Thus, higher contribution of value added products in total operating income has translated into improved operating profit margin for GPL.

TOI moderated for FY20 on back of CoVID-19 lock down impacting the sales in Q4FY20; albeit margins elevate on back of superior product mix
GPL's TOI remained muted at Rs.934.96 crore (PY: Rs.955.35 crore) in FY20 owing to the operational constraints caused due to CoVID-19 lockdown impacting the sales of GPL in the month of February and March 2020 along with operational shut down due to scheduled maintenance of plant during Oct-Nov 2019. GPL booked gross sales of Rs.222.86 crore in Q4FY20 as compared to Rs.226.55crore in Q4FY19. The muted sales were also on account of decline in the sales realisation during Q4FY20 on back of decline in the raw material prices (which are derivatives of crude oil) same was not proportionately passed on to its clientele translating into expansion in PBILDT margins.
GPL reported expansion of over 256bps in its PBILDT margin for FY20. The expansion in operating margin was on account of weakening of raw material prices which took some time to get reflected in the sales realisation.

In Q1FY21, GPL reported a Y-o-Y decline in TOI to Rs.171.27 crore (Q1FY20: Rs.255.05 crore) due to operational constraints caused due to the impact of CoVID-19. However, PBILDT margins continued to remain robust on back of lower raw material prices which was not entirely passed on to its customers.

Comfortable overall gearing and improved debt coverage indicators

GPL reported improvement in its leverage as on March 31, 2020, overall gearing improved to 0.35x as compared to 0.39x as on Mar. 31, 2019. The total debt of GPL comprised of term loans (59%), working capital borrowing (30%; Fund based + Non Fund based (LC Acceptance)) and remaining in loan in form of sales tax deferral loan and lease liabilities. GPL during the year availed term loan of Rs.101.25 crore to fund its capex for developing new product i.e. Paint Protection Film along with modernisation of the current manufacturing facility. Out of the total Rs.14.75 crore has been disbursed as on March 31, 2020 and the remaining in being availed as per the schedule. The increase in debt was compensated by accretion of profits earned during the year in the business strengthening GPL's tangible networth. Further, the debt coverage indicators like Total Debt to GCA and interest coverage improved to 1.74 times and 9.29 times (PY: 2.18; 7.80, respectively), respectively during FY20 on back of higher cash accruals.

Efficient working capital management

The company is majorly into manufacturing of value added products thus its sales are majorly order backed. On an average, GPL maintains an inventory holding period of around 45 days (considering the variety product portfolio) in order to cater to urgent export orders from its established clientele. The operating cycle increased marginally as on March 2020 to 33 days (PY: 28 days) on account of Covid-19 lockdown during the end March 2020 (last weeks) resulting in pile up of inventories and delayed payment from its debtors.

CoVID-19 lockdown impacted the operations. However, gradual recovery witnessed with improved capacity utilization on month on month basis.

GPL's plants were shut down on account of nationwide lockdown imposed due to Covid-19 from March 23, 2020 to second week of April 2020. However, its plants commenced operation from mid-April 2020 with limited work force. The Q1FY21 performance of GPL remained impacted due to operational constraints caused due to CoVID-19 lockdown but on back of gradual ease in lockdown the recovery in operations can be witnessed from the fact that the capacity utilization that dipped to around 40-45% in April 2020 has revived to over 80% by month of June 2020. In congruence to same, the average monthly sales have also elevated to pre CoVID levels.

Key Rating Weaknesses

Susceptibility of profitability margins to volatility in raw material prices

The major raw material used for the production of PET films is PET resin, which is mostly manufactured in-house. Purified Terephthalic Acid (PTA) and Monoethylene Glycol (MEG) are the major raw materials used for manufacturing of PET resin which are mostly procured domestically by GPL. PTA and MEG, being derivatives of crude oil, their prices generally move in tandem with crude oil prices. Although raw material price hikes are pass through in nature on account of GPL's ability to pass on price hike to customers with a moderate time lag, a sudden spike witnessed in crude oil prices may have marginal impact on profitability margins.

Foreign currency fluctuation risk

GPL is exposed to foreign exchange fluctuation risk on its sales (as export form ~65% of total sales) and receivables. Though, it exports to various countries, its currency exposure is limited to USD (largest exposure), EUR (Euro) and Great Brittan Pound (GBP). Owing to large proportion of export income as against the miniscule foreign currency expenses, GPL is exposed to foreign exchange fluctuation risk. However, GPL manages this risk by availing forward contracts on net exposure.

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. Further, the Supreme Court of India while deciding on the Public Interest Litigation, in their Judgment delivered on 27th April 2012 has banned the application of sun control films with effect from 4th May 2012 in India on the car windows. CARE notes that the management has taken adequate steps to mitigate the impact of such regulations on GPL's operations. Sun control films are almost entirely sold in the export market. The management has also completely ceased the production of commodity grade BOPP films without giving up on profitability .Though the company has successfully recovered from such adverse regulations; GPL's business continues to be sensitive to such regulations.

Liquidity: Strong
The liquidity indicators of GPL continue to remain strong on back of sufficient cushion available in its working capital limits with 20% average utilization of its fund-based limits during past 12 months ended July 2020. The gross cash accrual was healthy at Rs.129.51 crore during FY20 and unencumbered liquid investment of Rs.144 crore at end of June 2020. Further, GPL is expected to generate the cash accruals in range of Rs.85-100 crore during FY21. Thus, liquid investments and cash accruals would be more than sufficient to cover the debt repayment obligation of Rs.47 crore expected to be payable during FY21.
Despite of adequate liquidity, entity availed moratorium on loan payments till August 2020 to have sufficient liquidity backup to cover over COVID – 19 situations. However, payments towards the same has been already made.

Analytical approach: To arrive at the ratings assigned to the bank facilities of GPL, CARE has adopted the consolidated approach wherein the two wholly owned subsidiaries of GPL have been consolidated. Details of the entities considered for consolidation are:

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

Applicable Criteria
Criteria on Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
Rating Methodology – Manufacturing Companies
Financial ratios – Non-Financial Sector
Consolidation and Factoring Linkages in Ratings
Liquidity Analysis- Non-Financial Sector

About the Company
Incorporated in 1957, 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, TV Screen, 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 has consistently generated more than 60% of its total operating income via export sales. 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) and Bi-axially oriented polypropylene film (BOPP film; 16,500 MTPA).
Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/ facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	Q1FY21 (P)
Total operating income	955.35	934.96	171.27
PBILDT	150.76	171.45	30.88
PAT	81.65	86.02	13.61
Overall gearing (times)	0.39	0.35	-
Interest coverage (times)	7.80	9.29	6.74

A: Audited, P: Provisional

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

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	-	-	September 2022	16.04	CARE A; Positive
Non-fund-based - ST-BG/LC	-	-	-	198.19	CARE A1
Fund-based - LT-Term Loan	-	-	March 2026	204.76	CARE A; Positive
Fund-based - LT-Cash Credit	-	-	-	86.32	CARE A; Positive
Fund-based - LT-Cash Credit	-	-	-	62.69	CARE A; Positive

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	16.04	CARE A; Positive	-	1)CARE A; Stable (30-Sep-19) 2)CARE A-; Stable (02-Apr-19)	1)CARE A-; Stable (07-Apr-18)	-
2.	Non-fund-based - ST-BG/LC	ST	198.19	CARE A1	-	1)CARE A1 (30-Sep-19) 2)CARE A2+ (02-Apr-19)	1)CARE A2+ (07-Apr-18)	-
3.	Fund-based - LT-Term Loan	LT	204.76	CARE A; Positive	-	1)CARE A; Stable (30-Sep-19) 2)CARE A-; Stable (02-Apr-19)	1)CARE A-; Stable (07-Apr-18)	-
4.	Fund-based - LT-Cash Credit	LT	86.32	CARE A; Positive	-	1)CARE A; Stable (30-Sep-19) 2)CARE A-; Stable (02-Apr-19)	1)CARE A-; Stable / CARE A2+ (07-Apr-18)	-
5.	Fund-based - LT-Cash Credit	LT	62.69	CARE A; Positive	-	1)CARE A; Stable (30-Sep-19) 2)CARE A-; Stable (02-Apr-19)	1)CARE A- / CARE A2+ (07-Apr-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Available

Annexure-4: Complexity of various instrument rated for this company

Sr. No.	Name of the 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

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.*

Contact us

Media Contact
Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact 1:
Mr. Kunal B Shah
Contact no. +91 9714714745
Email ID- kunalb.shah@careratings.com

Analyst Contact 2
Mr. Sudarshan Shreenivas
Contact no.- +91 9820439195
Email ID- sudarshan.shreenivas@careratings.com

Relationship Contact Name:
Ms. Saikat Roy
Contact no. : +91 22 67543404
Email ID : Saikat.roy@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank Page 8 of 8 of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**