

Garware Polyester Limited

September 30, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ^[1]	Rating Action
Long term Bank Facilities	288.97 (Reduced from 290.22)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-;Stable (Single A Minus; Outlook:Stable)
Short term Bank Facilities	198.19	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Total Facilities	487.16 (Rupees four hundred eighty seven crore and sixteen lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Garware Polyester Limited (GPL) factors in the improved product mix translating into sustained expansion in PBILDT margin. GPL during last two years has moved away from commodity grade products to inclusion of more value added products into its product portfolio. As a result, the contribution of value added product that was low in FY18 elevated to approximately 69% in FY19. This change also led to consistent and sustained expansion in PBILDT margin, which elevated from 9% in FY17 to 15.8% in FY19.

Owing to improved product mix, GPL has garnered ability to pass on the increase in material cost to certain extent to its customers, as a result, CARE believes the operating profit margin for GPL are expected to sustain in the range of 15-17% going forward.

The expansion in PBILDT margin coupled with improvement in operating cycle led to improved cash accruals and strengthening of debt coverage indicators for FY19 and Q1FY20. The overall gearing as on Mar. 31, 2019 improved to 0.39x. CARE believes, owing to minimal envisaged capex in medium term the leverage indicators are expected to remain comfortable.

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.

The ratings would be reviewed, in case of any announcement of large debt funded capex adversely affecting debt coverage & leverage indicators and substantial contraction in operating profit margin.

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 Padmabhusan 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. Strategic business decisions are made by 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) are professionally qualified and have already been inducted into the business. They are working under mentorship of Shri. S.B.Garware. 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 polyester film variants of different thickness and features having varied end use applications. 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

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

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 and PET-G label application shrink films.

Strong brand name and wide distribution network

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. 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 regional risks. 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 China, 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.

Healthy growth in Total Operating Income and expansion of profit margins on the back of Value Added Products

GPL during the past few years has tweaked its product mix in favour of higher margin yielding products as against the commodity grade product. The strategy of GPL continues to focus on the specialty films segment and increase the share of value added products in the overall product profile and reduce the volume of commodity films. The contribution of value added products (VAP; Sun films and Shrink films part of plain films) to Total Operating Income has been proportionately rising since FY18. GPL reported YoY growth of 14% in Total Operating Income for FY19. The growth was attributed to improved sales realization on its key products, which led to growth of 12% in gross sales, and increased export incentive, which grew by over 20% in FY19. GPL generated over 69% of its income from export sales, wherein it is eligible to receive export incentives. Further, GPL reported expansion of over 500bps in its PBILDT margin for FY19. The expansion in operating margin was on account of improved product mix in favour of higher margin yielding products, improved sales realizations and benefits deriving from economies of scale. CARE believes, the margin expansion is expected to sustain going forward mainly because, GPL's operations have already shifted to improved product mix and key material prices are to certain extent pass through in nature.

Comfortable overall gearing and improved debt coverage indicators

GPL reported improvement in its leverage as on Mar. 31, 2019, overall gearing improved to 0.39x as on Mar. 31, 2019 as compared to 0.43x as on Mar. 31, 2018. In FY18, the management was able to substantially reduce its working capital borrowings on the back of availment of low interest bearing long term debt. In FY19, the utilisation of working capital borrowings has reduced further. Reduction in debt and healthy accretion to Networth led to an improvement in gearing levels. Further, the debt coverage indicators like Total Debt to GCA and interest coverage improved during FY19 on back of higher cash accruals and scheduled repayment on term debt.

Efficient working capital management

GPL has been managing its working capital efficiently since last two years. The operating cycle which witnessed decline to 47 days in FY18 declined further to 28 days in FY19. The inventory levels have been consistently going down since last two years translating into improved inventory days. Despite the receivables elevating in absolute terms during FY19, the receivables days were lower owing to increase in scale of operations. Efficient working capital management (contraction in net working capital) enabled GPL to liberate incremental cash flow of Rs.22.48 crore for FY19 and Rs.58.34 crore for FY18.

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. PTA and MEG, being derivatives of crude oil, their prices generally move in tandem with crude oil prices. 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. However, a sudden spike 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 69.16% 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 mitigates 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. Though the company has successfully recovered from such adverse regulations; GPL's business continues to be sensitive to such regulations.

Liquidity: Strong

GPL operates a strong liquidity profile as indicated by Rs.150 crore of unutilized working capital lines, availability of unencumbered cash and liquid investments amounting to Rs.124.11 crore (as on March 31,2019) and envisaged cash accruals of around Rs.104 crore for FY20 as against the scheduled repayment of around Rs.35 crore for FY20.

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. These subsidiaries are marketing arms for exports. Details of the entities considered for consolidation are mentioned as Annexure 3.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

CARE's methodology for Short-term Instruments

CARE's methodology for manufacturing companies

Financial ratios – Non-Financial Sector

Rating Methodology: Factoring Linkages in Ratings

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 trademark registration in more than 30 Countries. Garware, Garfilm, EM6, Global Window Films, Garsafe, Er, ERE, Garlam, Suncontrol Classic, Defendo are some of the registered trademarks of GPL. GPL has international accreditations and certifications for different products namely ROH (Restrictions on use of Hazardous Substances), SVSC (Substance of very High Concern), FDA (Food and Drug Administration), UL (Underwriters Laboratory, as per European Union and American Product Safety Regulations).

GPL has vertically integrated operations 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 towards commercial / residential buildings and automobiles. GPL has consistently generated 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).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	Q1FY20 (UA)
Total operating income	838.85	955.35	252.44
PBILDT	87.76	150.76	48.08
PAT	33.12	81.65	26.82
Overall gearing (times)	0.43	0.39	-
Interest coverage (times)	3.51	7.80	9.64

A: Audited, UA: Un-Audited

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	18.55	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	198.19	CARE A1
Fund-based - LT-Term Loan	-	-	March 2024	120.42	CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	86.32	CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	63.68	CARE A; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	18.55	CARE A; Stable	1)CARE A-; Stable (02-Apr-19)	1)CARE A-; Stable (07-Apr-18)	-	1)CARE A- (03-Feb-17)
2.	Non-fund-based - ST-BG/LC	ST	198.19	CARE A1	1)CARE A2+ (02-Apr-19)	1)CARE A2+ (07-Apr-18)	-	1)CARE A2+ (03-Feb-17)
3.	Fund-based - LT-Term Loan	LT	120.42	CARE A; Stable	1)CARE A-; Stable (02-Apr-19)	1)CARE A-; Stable (07-Apr-18)	-	1)CARE A- / CARE A2+ (03-Feb-17)
4.	Fund-based - LT-Cash Credit	LT	86.32	CARE A; Stable	1)CARE A-; Stable / CARE A2+ (02-Apr-19)	1)CARE A-; Stable / CARE A2+ (07-Apr-18)	-	1)CARE A- (03-Feb-17)
5.	Fund-based - LT-Cash Credit	LT	63.68	CARE A; Stable	1)CARE A-; Stable / CARE A2+ (02-Apr-19)	1)CARE A- / CARE A2+ (07-Apr-18)	-	1)CARE A2+ (03-Feb-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
					(02-Apr-19)			

Annexure-3: List of Consolidated Entities

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%	

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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