Grauer and Weil (India) Limited (Revised)

May 11, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	100.00 (Enhanced from Rs.99.50)	**CARE AA-; Stable [Double A Minus; Outlook : Stable]**	Reaffirmed
Short-term Bank Facilities	45.00 (Reduced from Rs.45.50)	**CARE A1+ [A One Plus]**	Reaffirmed
Total Facilities	**145.00 (Rs. One hundred forty five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Grauer & Weil (India) Limited (GWIL) continue to derive strength from the GWIL's leadership position in domestic electroplating chemical industry where, GWIL's has 32% market share. Moderately diversified earnings profile with inclusion of income from Electroplating chemicals, industrial paints, engineering and commercial property segment. Rating continue to factor in the superior financial risk profile marked by healthy growth witnessed in its Total Operating Income (TOI) during FY19 coupled with growing contribution from paints segment, continuation of comfortable leverage indicators as on September 30, 2019 and strong liquidity on back of large unencumbered liquid investments with meager utilization towards its working capital limits.

During FY19, GWIL reported YoY growth of 20% in its TOI. The growth was supported by superlative growth witnessed in its Paints segment (although on relatively lower base) and modest growth in chemical segment. Further, during 9MFY20 the chemical segment reported growth in income of 3.94% on a YoY basis pick-up in demand especially during Q3FY20 lead by improved demand from consumer segments. The PBILDT margin moderated during FY19 and 9MFY20 to 19% and 17% respectively owing to elevated competitive intensity and change in product mix. Despite moderation, the PBILDT margin continued to remain healthy and consistent cash flow generation resulted in superior debt coverage indicators for FY19 and 9MFY20.

The ratings strengths, however, are tempered by GWIL's relatively moderate scale of operations with large part of income being contributed from Surfactant products (having following sub segments Electroplating chemicals, Paints and Oils Lubricants). Rating also continue to factor in the susceptibility of its PBILDT margin to raw materials fluctuation and moderation witnessed in recent past owing to elevated competitive intensity. Sizable non committed capex of ~Rs.120 crore (spread over next three years) to be funded from internal accrual exposes company to project and stabilization risk associated with the same.

CoVID- 19 update and risk assessment

CARE believes interim closure of manufacturing facilities and mall amid CoVID -19 is expected to have bearing on both operational and financial performance that would be reported by company for H1FY21. Although, the manufacturing facilities have commenced from fourth week of April 2020 on a limited scale, however, the capacity utilization may remain relatively low for another 3-4 months. It is expected that mall operations will take extended time to stabilize as same remains closed under lockdown for now and may see relatively lower footfall post it resumes the operations. CARE believes, both the revenues and operating profit margin may remain weaker during FY21 for mall segment. Despite of expected moderation in performance, CARE believes, GWIL has sufficient liquidity in terms of unencumbered investments, unutilized bank lines to manage the operations.

Rating Sensitivities

Positive Factors

- Sustained improvement in profitability PBILDT margins to over 25%
- Improvement in scale of operations above Rs.1,000 crore on sustained basis
- GWIL diversifying its revenue profile (both in terms of product and geography) with key product segment contributing around 35-40% to total operating income

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

Negative Factors

- PBILDT margin declining below 15% on a sustainable basis.
- Any debt-funded project (organic / inorganic) resulting in to overall gearing increasing above 0.4x on sustained basis.
- Substantial reduction in liquidity position (un-encumbered cash and investment in FD) below Rs.60 crore from current levels of over Rs.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 track record of over six decades in electroplating business continue to have leadership position in the domestic electroplating chemical industry 32% market share. GWIL is promoted by More family with Mr. Umeshkumar More, currently serving as Chairman, being associated with the company since July 17, 1969. His more than five decades of experience helps the company in strategic planning and expansion of the business. Mr Umeshkumar More is assisted by his son Mr. Nirajkumar More (M.D), a Bachelor of Business Administration from U.K. Besides, the company has team of well qualified professionals for heading various functional departments.

Moderately diversified revenue profile

The company's revenue profile is moderately diversified owing to its operations under different business segments such as electroplating chemicals, paints, engineering and shopping mall. Furthermore, electroplating chemical segment has wide basket of product categories and the chemicals manufactured by the company finds its use in various industries such as consumer durables, gems and jewelry, machineries, automobile parts oil and gas etc. Thus GWIL benefits from the well diversified product portfolio of chemical segment. Moreover, the company is also involved in manufacturing of industrial paints which is the second largest contributor to the company's revenue. Apart from the above the company has shopping mall spread over 4,75,000 sq. ft. at Kandivali (Mumbai suburbs) with 2,47,000 sq.ft. of leasable area. Thus, the diversified revenue profile has helped the company to reduce its dependency as well as tide over any downturn in a particular business segment as is evident from consistent growth in revenue over decades.

Stable operating performance during FY19 and 9MFY20; albeit moderate scale of operations

GWIL with its consolidated TOI of Rs.610.31crore for FY19 and tangible networth of Rs.400.11 crore as at March 31, 2019 is considered to be a relatively moderate-sized entity. GWIL's Total Operating Income (TOI) on a consolidated basis grew at healthy rate of 20% on Y-o-Y basis to Rs.610.31 crore in FY19, led by strong performance across segments. GWIL's TOI in 9MFY20 on a consolidated basis reported a modest growth of 6.39% on a YoY basis, primarily led by strong performance across its segments except for electro plating chemical division, which showed modest growth in revenue of 3.94% on a YoY basis in 9MFY20 led by *pick-up in demand especially during Q3FY20 lead by improved demand from consumer segments*. PBILDT margin moderated during FY19 and 9MFY20 to 19% and 17% respectively as compared to 21.13% in FY18 owing to elevated competitive intensity and change in product mix.

Stable gross cash accruals leading to further improvement in the liquidity position; capital structure continues to be strong

GWIL continued to post a stable Gross Cash Accruals (GCA) marked by improved performance across segment it operates, healthy operating margins; albeit decline witnessed in FY19 and H1FY20, low interest burden owing to lower reliance debt funding. The GCA for FY19 remained largely stable at Rs.79.73 crore for FY19 as against Rs.79.44 crore witnessed for FY18. Furthermore, owing to its robust GCA, the company continues to finance its operational and capex requirements largely through internal accruals leading to strong capital structure for the company. GWIL continued to have no long term debt except for the interest bearing unsecured loans from promoters to an extent of Rs.5.47 crore. The overall gearing as on March 31, 2019 was at 0.05x as against 0.02x as on March 31, 2018. The gearing has further improved to 0.01x as on September 30, 2019. Also, with no debt funded capex planned till FY22, the overall gearing of the company is expected to remain at comfortable levels.

Key Rating Weaknesses

Susceptibility of PBILDT margins to volatility in raw material prices and forex risk

The company's raw materials are various kinds of metals which are used in powder form in plating/coating in the case of chemical segment which continue to remain volatile. On the other hand the industrial paints have crude oil derivatives as majority of its raw materials. Hence their price is linked to crude oil price, which is volatile in nature. As pricing to supply paints are decided at the time of bidding, the segments profit margins remains exposed to volatility in the input prices. Moreover, being relatively small player in the segment the pricing power is also low.
As the company's operations involve import/export of raw material and sales of its products for which transactions are done mostly in Yen, USD, and Euro. The imports accounted for Rs.67.99 crore(Chemical as against export of Rs.51.82 crore (primarily chemicals). The company has policy of hedging majority of its imports; however, the receivables are normally kept open and hence are exposed to foreign exchange fluctuation. Nonetheless, for the year ending March 31, 2019 the company had net foreign exchange gain of Rs.1.57crore.

Working capital cycle continue to remain on the higher side

Company's working capital cycle continues to be on higher side owing to its nature of operations which requires the company to extend credit period of around two months to its customers along with need to maintain inventory of large basket of products. GWIL's average working capital cycle was at 83 days as on March 31,2019 as compared to about 80 days as on March 31, 2018. The receivables and inventory days has largely remained stable at 64 days and 61 days respectively as on March 31, 2019.

Ongoing project expansion to result in improved diversification:

During FY19, as envisaged the company has incurred a total capex of about Rs.42 crore primarily towards purchase of land and building at Dadra and also has enhanced its manufacturing capacity of its Paint capacity at Dadra by 3600 KL p.a increasing the total capacity to 12,000 KL. p.a and Barotiwala by 1200 KL p.a to 3,600 KL. p.a was also completed. However, given the market condition the company has kept the mall expansion on hold up to FY22.Further, company plans to incur a total capex of Rs.120 crore (Rs.40 crore per annum) for enhancing its Chemical, Paints capacity at various location up to FY22

Liquidity – Strong

GWIL's liquidity position continues to remain strong marked by stable Gross Cash Accruals (GCA) as a result of healthy operating margins; albeit decline witnessed in FY19 and 9MFY20, low interest burden owing to lower reliance debt funding. GWIL continued to have no long term debt except for the interest bearing unsecured loans from promoters to an extent of Rs.5.47 crore thereby keeping the overall gearing at a very comfortable levels of 0.01x as on Sep.30,2019. Also, with no debt funded capex planned till FY22, the overall gearing of the company is expected to remain at comfortable levels.

The liquidity strength is further enhanced by the fact that company continue to have unencumbered liquid investment in FD and cash of Rs.112.06 crore as on April 30, 2020 . Moreover, the utilization of fund based limits maintained by the company also remains negligible which provides additional buffer to the company to raise funds in case of any exigency as against total capex of Rs.40 crore per year in medium term.

Analytical approach: Consolidated

CARE has considered consolidated financials for arriving at the rating, as all its subsidiaries/associates are a part of same promoter and are in the similar line of business.

List of subsidiaries as on March 31, 2019 is as below:

Overseas Subsidiaries	**Holdings of GWIL(%)**
Grauer & Weil (Shanghai) Limited in China	100.00
Grauer & Weil (UK) Limited in United Kingdom	100.00
Growel Chemicals Co. Limited in Thailand	100.00
Associates Companies	**Holdings of GWIL(%)**
Grauer & Weil (Thailand) Co. Limited	48.99
Grauer & Weil Engineering Private Limited	16.21
Growel Sidasa Industries Private Limited	49.80

Applicable Criteria

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

About the Company

Grauer & Weil (India) Limited (GWIL), initially set up as a partnership concern in May 1940 by British nationals - Mr Grauer and Mr Weil, was taken over by 'More' family during 1991 subsequent to a series of changes in promoters.

GWIL operates in four broad segments: Electoplating chemicals, Paints, engineering and shopping mall. The chemical division manufactures and sells chemicals required for metal finishing (electroplating chemicals), their intermediates and other specialty chemicals (accounted for about 61% of total revenue in FY19).The paint division (evolved from the merger of a group company Bombay Paints Limited during the year FY09) manufactures industrial paints ((accounted for about 23% of the total revenue in FY19). The engineering division is involved in manufacturing and providing turnkey solution for electroplating plants, effluent treatment plants and other engineering products (accounted for about 7% of the total revenue in FY19). GWIL also owns a shopping-cum entertainment mall in Kandivali East (***Growels 101***), Mumbai (accounted for about 6% of the total revenue in FY19). The company also manufactures oil which accounted for about 2% of the total revenue in FY19.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	9MFY20
Total operating income	510.56	610.31	452.57
PBILDT	107.86	115.08	76.64
PBT	90.66	94.12	68.17
PAT	63.78	63.87	53.74
Overall gearing (times)	0.02	0.05	--
Interest coverage (times)	42.30	71.17	81.53

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-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 (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-Cash Credit	LT	100.00	CARE AA-; Stable	-	1)CARE AA-; Stable (09-Dec-19)	1)CARE AA-; Stable (08-Oct-18)	1)CARE AA-; Stable (06-Oct-17)
2.	Non-fund-based - ST-BG/LC	ST	45.00	CARE A1+	-	1)CARE A1+ (09-Dec-19)	1)CARE A1+ (08-Oct-18)	1)CARE A1+ (06-Oct-17)
3.	Fixed Deposit	LT	10.00	CARE AA- (FD); Stable	-	1)CARE AA- (FD); Stable (09-Dec-19)	1)CARE AA- (FD); Stable (08-Oct-18)	1)CARE AA- (FD); Stable (06-Oct-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Bank Facilities- Financial covenants	Detailed explanation
I Maximum Debt to EBIDTA of 2.0x	Ratio of Total Debt to EBIDTA
Ii Minimum Current ratio of 1.33x	Ratio of current assets to current liabilities, excl. CPLDT portion)

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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