Grauer and Weil (India) Limited

October 06, 2020

Ratings

Facilities/ Instruments	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	100.00	**CARE AA-; Stable [Double A Minus; Outlook : Stable]**	Reaffirmed
Short-term Bank Facilities	45.00	**CARE A1+ [A One Plus]**	Reaffirmed
Total Facilities	**145.00 (Rs. One hundred forty five crore only)**		
Proposed Medium Term Fixed Deposit Programme	10.00	**CARE AA-(FD); Stable [Double A Minus (Fixed Deposit); Outlook : Stable]**	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and proposed Fixed Deposits (FD) 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. The ratings also continue to factor in the strong financial risk profile marked by low leverage, strong debt coverage indicators and strong liquidity on back of large unencumbered liquid investments with negligible utilization towards its working capital limits.

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.

Operating performance is likely to remain impacted in FY21 as the Covid-19 pandemic is expected to affect overall demand along with economic slowdown. Although the production activities have resumed from 4th week of April on a limited scale and Mall has opened from August 2020, albeit the pace of production capacity utilization and footfall in Mall is would remain relatively low for another 3-4 months. It is expected that mall operations will take extended time to stabilize as it may see relatively lower footfall until COVID 19 persist. 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 of 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

Negative Factors

- PBILDT margin declining below 15% on a sustainable basis.
- Any debt-funded project (organic / inorganic) resulting in to overall gearing increasing above 0.5x 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.

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

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 revenue growth, with healthy operating margins for FY20; albeit Q1FY21 impacted by CoVID-19

GWIL with its consolidated TOI of Rs.630.56 crore for FY20 and tangible networth of Rs.443.77 crore as at March 31, 2020 is considered to be a relatively moderate-sized entity. GWIL's Total Operating Income (TOI) on a consolidated basis grew at healthy rate of 3.32% on Y-o-Y basis in FY20, led by improved performance across segments. However, GWIL's TOI during Q1FY21 on a consolidated basis reported degrowth 50.80% on a YoY basis, primarily attributable to weaker performance in all the segments with Engineering and Shoppertainment impacted to most with drop of 90.17% and 97.94% respectively while Chemicals recorded drop of 45.68% y-o-y basis. While production began in phased manner from May onward, however Mall remained closed till July 2020 as per COVID 19 restrictions from government. PBILDT margin moderated during FY20 due to lower realization from engineering and Surface Finishing segment given sluggish demand and were also impacted due to nationwide lockdown in March 2020 due to COVID 19. Consequent to weak Q1FY21 TOI, GWIL reported lower operating margin in Q1FY21 due to lower volume and realization and very low revenue from Mall (higher PBILDT generator) as it remained closed upto July 2020.

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 FY20, low interest burden owing to lower reliance debt funding. The GCA for FY20 improved at Rs.90.50 crore for FY20 as against Rs.79.73 crore witnessed for FY19. 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, 2020, inline with previous year. 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. 84.55 crore(Chemical) as against export of Rs.50.96 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. (any gain or loss in FY20 vs FY19).

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 dealers along with need to maintain inventory of large basket of products. GWIL's average working capital cycle was at 93 days as on March 31,2020 as compared to about 83 days as on March 31, 2019. The receivables and inventory days had stretched to 70 days and 72 days respectively as on March 31, 2020 on account of sudden lockdown announced during March 2020. However same has reduced during Q1FY21 with realization of debtors and reduction in inventory levels. Receivables reduced to Rs 90 crore as on June 30, 2020 date (from Rs 114.18 crore in FY20) and inventory to Rs 96 crore (from Rs 108.40 crore in FY20).

Moderate ongoing project funded through internal accruals

During FY20, as envisaged the company has incurred a total capex of about Rs.27 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. Given the fact that the afore said expansion would be funded from internal accruals also with unencumbered cash and bank balances of Rs.140 crore as on Aug 31, 2020, the funding risk of the project is low.

Liquidity – Strong

GWIL's liquidity indicators continues to remain strong marked by unencumbered liquid investment in Fixed Deposits and cash of Rs.140 crore as on Aug 31, 2020, unutilized cash credit limit of Rs.100 crore (largely remained un-utilized for trailing twelve months) and expected Gross Cash Accruals (GCA) for FY21 in range of 60-70 crores as against less than Rs.3.20 crore of repayments due for the year. Moreover, with no major capex being planned for FY21, the current liquidity cover is more than sufficient to cover the short-term obligations.

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	29.99
Growel Sidasa Industries Private Limited	49.80

Applicable Criteria

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

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 three broad segments: Surface Finishing (accounted for 86.55% of revenues in FY20), Engineering (7.93% of revenues in FY20) and Shopping mall (5.52% of revenues in FY20). The Surface Finishing comprises of chemical division paint division and oil division. Under Chemical division it manufactures and sells chemicals required for metal finishing (electroplating chemicals), their intermediates and other specialty chemicals. The paint division (evolved from the merger of a group company Bombay Paints Limited during the year FY09) manufactures industrial paints. The engineering division is involved in manufacturing and providing turnkey solution for electroplating plants, effluent treatment plants and other engineering products. GWIL also owns a shopping-cum entertainment mall in Kandivali East (***Growels 101***), Mumbai.

Brief Financials (Rs. crore)	**FY19 (A)**	**FY20 (A)**	**Q1FY21**
Total operating income	610.31	630.56	65.99
PBILDT	115.08	108.43	7.01
PAT	63.87	75.84	1.11
Overall gearing (times)	0.05	0.05	NA
Interest coverage (times)	71.17	33.24	25.96

A: 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

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

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+
Fixed Deposit	-	-	-	10.00	CARE AA- (FD); 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 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 (11-May-20)	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+ (11-May-20)	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	Detailed explanation
Financial covenants	
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)**

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fixed Deposit	Simple
2.	Fund-based - LT-Cash Credit	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.*

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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 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.

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