Garware Technical Fibres Limited

September 25, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Fund-based	Rs.145.39 crore	Rs.175.00 crore	[ICRA]AA(Stable) upgraded from [ICRA]AA-(Stable); [ICRA]A1+ reaffirmed
Non-Fund Based Facilities	Rs.135.00 crore	Rs.165.00 crore	[ICRA]AA(Stable) upgraded from [ICRA]AA-(Stable); [ICRA]A1+ reaffirmed
Commercial Paper	Rs.15.00 crore	Rs.15.00 crore	[ICRA]A1+; Reaffirmed
Total	**Rs.295.39 crore**	**Rs.355.00 crore**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has revised the long-term rating from [ICRA]AA- (pronounced ICRA AA minus) to [ICRA]AA (pronounced ICRA AA) for the Rs 340.00 crore (enhanced from Rs. 280.39 crore) bank facilities of Garware Technical Fibres Limited (GTFL). The Outlook on the long-term rating is 'stable'. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ for the Rs. 15.00 crore commercial paper Programme of GTFL.

Rationale

The ratings revision reflects substantial improvement in credit profile of GTFL supported by strong cash accruals, improved product mix and prudent working capital management. Due to focus on value added products, GTFL was able to gradually expand its OPBIDTA margin from 10% in FY2015 to 18% in FY2018, despite increase in key raw material prices over the same period. Moreover, due to prudent working capital management as well as moderate capex plans, debt level has consistently reduced with company having net cash surplus of Rs 120 crore as on Mar-2018 as compared to net debt of Rs 52 crore in Mar-2015. In absence of major capex or investment plans, ICRA expects GTFL's capital structure as well as coverage indicators to remain strong with company likely to remain in net cash surplus position and Total-Debt/OPBIDTA expected to remain below 1.0x over the medium term.

The ratings continue to derive comfort from the well-entrenched position of GTFL in the domestic market with sizeable market share over the years in fishnet, ropes and twines business. The ratings also factor in the established presence of the company in the export market; limited organised competition in the domestic market in key product segments; and improved financial profile characterised by healthy profitability, strong capital structure, coverage indicators and liquidity profile. The rating strengths are partially offset by a price sensitive domestic market; muted growth in domestic market over the last few years and competition from the unorganised segment. ICRA notes the challenging domestic demand scenario limits organic growth prospects and exposure to global economic activities and foreign currency volatility.

ICRA expects the company to maintain its healthy operating performance, given its focus on value added products, rising share of exports in the overall revenue and new product development which command premium over existing product. In line with expected healthy operating performance and adequate working capital management, the liquidity profile is also likely to remain healthy in the near to medium term supported by Rs. 258 crore cash and undrawn bank lines to the tune of Rs.55 crore as on July 2018.

Outlook: Stable

ICRA expects GTFL's credit profile to improve further over the medium to long-term, supported strong accruals and healthy growth prospects in overseas market. The outlook may be revised to Positive if there is sustainable improvement in its scale of operations. The outlook may be revised to Negative in case of significant weakening in market position, thereby materially impacting profitability and return indicators or any leveraged acquisition, which may have a bearing on the leverage indicators of the firm. ICRA expects the company to maintain its credit profile through its organic or inorganic investment plans, the impact of any such investments, on the credit profile would be evaluated by ICRA on a case-by-case basis.

Key rating drivers

Credit strengths

Sizeable share in the domestic market – GTFL has more than four decades of experience in the cordage industry and commands a dominant share in the organised domestic market. Over a period, the company has established a healthy brand for its fishnets, ropes, and twines among others, which command premium owing to their high quality. As per GTFL's management, the company commands dominant market share of 60-65% in the organised domestic fishnets industry in India, 30% share in global netting requirement in salmon aquaculture and 17-18% in fishing segment.

Steady improvement in profitability and liquidity profile – The profitability of the company remains strong with RoCE of 26% during FY2018 on account of healthy operating performance and improved product mix. The liquidity profile of the company is robust with unencumbered cash and liquid investments of over Rs. 250 crore as on March 2018 and sizeable unutilised bank lines.

Diversified revenue stream with gradual growth in other segments – The company has presence in multiple business segments including fisheries, aquaculture, shipping and industrial, yarn and thread, sports, geo-synthetics, agri-tech and coated fabrics. The share of revenues is dominated by net assembly and ropes segment, however, there has been gradual increase in share from other business segments such as agri-tech and coated fabrics, having favourable long-term demand potential.

Increasing share of value-added product portfolio – Share of premium product portfolio has been increasing during the last few years driven by increased focus on innovation and customer centric approach. Share of value added products has gone up from 35% to 67% during last 3-4 years and it contributes to 70-75% of profit currently. The same ensures better pricing flexibility amid rising input prices, especially to commodities linked with global crude prices.

Established presence in the export market – GTFL has presence in more than 75 countries with healthy market positioning in the developed markets such as North America and Europe, which contribute to the bulk of export revenues (81% of overall revenue in FY2018). Access to overseas market insulates the revenue profile from the fluctuations in the domestic market and provides higher growth opportunities. The company is gradually making inroads in new geographies, while expanding its premium product offering for the export market.

Credit challenges

Profitability remains exposed to global economic activities, foreign currency volatility and crude oil price movement – GTFL derives nearly 51% of the revenue share from export market and as a result remains exposed to global economic activities and foreign currency volatility. To mitigate its demand risk from global markets, the company has been geographically diversifying its revenue base. The company adopts conservative hedging policy, which along with natural hedge from imports (constituting around 25-30% of raw material requirement) mitigates the foreign currency volatility to some extent. The profitability of the company also remains exposed to volatility in crude oil prices as the prices of key raw materials used by the company are linked to crude oil price movement. Higher than anticipated increase in the crude oil prices can impact the profitability of the company, given price sensitive nature of the end user industries.

Stiff competition from unorganised players in price conscious domestic market – The company operates in a highly price sensitive domestic market that is largely fragmented with presence of several smaller players, which restricts its pricing flexibility. Furthermore, the upward price movement in end-products (fishnets, twines, ropes) also lead to demand pressure from the retail segment. However, supported by increasing share of value-added content, premium product portfolio and pricing flexibility, the company has been able to improve its operating margins in the last few years.

Stagnant domestic demand in key product segments – The domestic demand in the key product segments of the company has been stagnant. Given the company's dominant market share in the domestic market, the muted demand has restricted the revenue growth prospects. However, with gradual pick-up in economic activity and focus on growth markets like agri-tech and coated fabrics, the demand outlook is expected to improve to some extent in the medium term.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

GTFL is a leading player in technical textiles, specialising in providing customised solutions to the cordage and infrastructure industry worldwide. A global player, the company is known for its innovation in the field of fisheries, aquaculture, shipping, sports, agriculture, coated fabrics and geo-synthetics. GTFL has two manufacturing facilities in Maharashtra located at Pune and Wai (Satara district). It has an established presence in the export market with about 51% of the sales (FY2018) being generated from exports. GTFL is listed on Bombay Stock Exchange and National Stock Exchange.

In FY2018, the company reported a net profit of Rs. 105.1 crore on an operating income of Rs. 884.6 crore, as compared to a net profit of Rs. 84.3 crore on an operating income of Rs. 845.9 crore in FY2017.

Key financial indicators

Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	845.9	884.6
PAT (Rs. crore)	84.3	105.1
OPBDIT/OI (%)	15.9%	18.1%
RoCE (%)	25.9%	25.7%
Total Debt/TNW (times)	0.2	0.3
Total Debt/OPBDIT (times)	0.6	0.9
Interest Coverage (times)	20.6	16.1

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding*	Date & Rating in FY2019 Sep 18	Date & Rating in FY2018 Aug 17	Date & Rating in FY2017 Jul 16	Date & Rating in FY2016 Dec 15
1	Fund-based	Long-term	Rs.175.00 crore	Rs. 116.55 crore	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)
2	Non-Fund Based Facilities	Long-term/ Short-term	Rs.165.00 crore	Rs. 42.06 crore	[ICRA]AA (Stable)/ [ICRA] A1+	[ICRA]AA- (Stable)/ [ICRA] A1+	[ICRA]AA- (Stable)/ [ICRA] A1+	[ICRA]A+ (Stable)/ [ICRA] A1+
3	Commercial Paper	Short-term	Rs.15.00 crore	NIL	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Source: The company; *-Amount Outstanding as on August 31, 2018.

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
NA	Fund-based	-	NA	-	Rs.175.00 crore	[ICRA]AA(Stable)
NA	Non-Fund Based Facilities	-	NA	-	Rs.165.00 crore	[ICRA]AA(Stable)/ [ICRA] A1+
NA	Commercial Paper	-	NA	-	Rs.15.00 crore	[ICRA]A1+

Source: The company

ANALYST CONTACTS

Subrata Ray
+91 22 2433 1086
subrata@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Pavan Rajkumar Agrawal
+91 20 6606 9916
pavan.agrawal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999