July 18, 2022

Garden Silk Mills Private Limited: Ratings reaffirmed; rating assigned to enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	450.0	450.0	[ICRA]A+(Stable) reaffirmed
Term loan - Capex	770.0	788.0	[ICRA]A+(Stable) assigned/reaffirmed
Fund based – Working capital limits	200.0	200.0	[ICRA]A+(Stable)/ [ICRA]A1 reaffirmed
Non fund based – Working Capital limits	350.0	350.0	[ICRA]A+(Stable)/ [ICRA]A1 reaffirmed
Total	**1770.0**	**1788.0**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of Garden Silk Mills Private Limited (GSMPL), along with its parent, MCPI Private Limited (MCPI), while assigning the ratings, given the common management and significant operational and financial linkages between them.

The rating action considers the healthy consolidated financial performance of MCPI and GSMPL in FY2022, which is expected to continue in the near term. MCPI has witnessed a sharp improvement in the operating profits due to a favourable spread between its final product, purified terephthalic acid (PTA), and its key raw material, paraxylene (Px). GSMPL has also reported healthy profits despite a sharp increase in the cost of coal during H2 FY2022 due to an improvement in capacity utilisation levels, and healthy sales realisation amid a favourable demand scenario. On a consolidated level, the companies have reported an OPBITDA of ~Rs. 1143 crore in FY2022, which resulted in a significant cash build-up of over ~Rs. 1,900 crore as on March 31, 2022. ICRA took note of GSMPL's large capital expenditure plan of ~Rs. 1,200 crore to convert almost 100% of chips to value-added products like fully drawn yarns (FDY), and other value-added yarns/ Bottle Grade Chips, a part of which is expected to be funded by fresh borrowing. Notwithstanding the same, its capital structure and the liquidity position are expected to remain healthy and the consolidated entity is expected to continue to have a net cash position. Going forward, while MCPI's profits are expected to moderate due to a moderation in Px-PTA spreads, GSMPL's profitability is expected to improve with higher capacities of value-added products, thus, cushioning the impact at the consolidated level. The ratings also factor in the company's considerable financial flexibility for being a part of the diversified TCG Group and having a large cash balance at the consolidated level.

The ratings continue to take into consideration GSMPL's established position of over four decades in the polyester yarn industry with presence across various product segments from chips to yarns and fabric, and the status of MCPI as one of the leading domestic purified terephthalic acid (PTA) manufacturers, which is the key raw material for GSMPL. The ratings are, however, constrained by GSMPL's limited value addition at present as ~40% of GSMPL's revenues comes from the sale of low-margin polyester chips, thus exposing the company to fluctuations in prices of key raw materials – PTA and mono ethylene glycol (MEG). The consolidated profitability and cash flows are also exposed to variation in financial performance of MCPI, which in turn is dependent on the px-PTA spreads, which have witnessed considerable volatility in the past. However, the acquisition of GSMPL by MCPI has resulted in forward integration into the polyester value chain for MCPI, wherein ~25-30% of the PTA produced is now being captively consumed which will be increased to 40-45% post expansion of GSMPL. GSMPL's plans to increase the proportion of value-added products, once the capex programme is over, is expected to mitigate the volatility, going forward.

The Stable outlook reflects ICRA's expectations that the consolidated cash flow would remain healthy compared to the debt service obligations, going forward. In addition, a large cash balance provides considerable financial flexibility.

Key rating drivers and their description

Credit strengths

Improvement in financial performance of the consolidated entity – In FY2022, there has been an improvement in the financial performance of the consolidated entity, which is expected to continue in the near term. MCPI has witnessed a sharp increase in the operating profits due to a favourable Px-PTA spread, which is expected to remain high in the near term. GSMPL has also reported healthy profits, despite a sharp increase in the cost of coal during H2 FY2022, due to an improvement in capacity utilisation levels and healthy sales realisation amid a favourable demand scenario. On a consolidated level, the companies have reported an OPBITDA of ~Rs. 1143 crore in FY2022. Going forward, while MCPI's profits are expected to decline due to a moderation in Px-PTA spreads, GSMPL's profitability is expected to improve with higher capacities of value-added products, thus, cushioning the impact at the consolidated level. Nonetheless, the financial profile of the consolidated entity is expected to remain comfortable.

Established position with long track record and an established distribution network – The company has been in the polyester yarn industry for more than four decades with presence across various product segments. It is a vertically integrated manufacturer of a wide range of polyester chips, polyester filament yarns (PFY), woven (grey) fabric as well as dyed and printed sarees and dress materials. It manufactures and sells synthetic fabric under the brand names, Garden and Vareli. GSMPL under its brand name, Vareli, sells sarees and other women readymade garments through its network of distributors and retailers and is in the process of setting up franchise stores and online sales channels. Despite witnessing financial stress in the last few years, GSMPL has been able to generate positive operating profits over the last five years on account of its established operations and a wide distribution network.

Strong parentage of MCPI – MCPI is one of the leading domestic PTA manufacturers, which in turn is the key raw material for GSMPL. Thus, GSMPL now has an assured supply of PTA. Additionally, GSMPL receives working capital related support from the parent, whenever required, in the form of flexible payment terms. ICRA notes that MCPI has offered a Rs. 200-crore line of credit to GSMPL. MCPI is a part of the diversified TCG Group having strong promoters, a conservative capital structure and a large cash balance, which provide considerable financial flexibility to the consolidated entity.

Considerable operational synergies – GSMPL has presence across various product segments in the polyester yarn industry starting from chips to yarns and fabric, while MCPI is one of the leading domestic PTA manufacturers, which is the key raw material for GSMPL. Thus, the takeover of GSMPL by MCPI has resulted in forward integration into the polyester value chain for MCPI, resulting in additional profitability for its existing product, PTA. At present ~25-30% of the PTA is captively consumed at GSMPL. Whereas for GSMPL, this acquisition has resulted in an assured supply of the key raw material. As a result, the consolidated entity's exposure to volatility in input and output prices will be lower than the individual standalone entities, thus strengthening the business risk profile of the consolidated entity. Going forward, the operating profile is likely to be stronger because of the capital expenditure plans of GSMPL.

Healthy capital structure – GSMPL was admitted to the National Company Law Tribunal (NCLT) in June 2020 under the Insolvency and Bankruptcy Code (IBC) process. In January 2021, MCPI emerged as the successful resolution applicant for the acquisition of GSMPL at a total consideration of Rs. 747 crore. Post restructuring, the capital structure of GSMPL is comfortable with an estimated total external debt to OPBDITA of ~3.6 times in FY2022 from ~37.5 times in FY2020. However, when adjusted for its large cash and bank balances, the Net Debt/OPBITDA was negative. On a consolidated basis too, the capital structure is expected to remain healthy with comfortable debt coverage indicators. The consolidated Total external Debt/OPBITDA stood at ~1.7 times in FY2022. When adjusted for its large cash balances, the Net Debt/OPBITDA is negative at present. Despite the large capex, partly funded by debt, the consolidated entity is expected to continue to have a net cash position, going forward.

Credit challenges

Limited value addition in operations at present – Around 40% of GSMPL's total revenues comes from the sale of polyester chips, the lowest value-added product in the entire polyester value chain. GSMPL has a large capacity to produce polyester chips, for which the downstream capacities are not available. Thus, the company has to sell these chips at low contribution margins, limiting the overall operating margins. Going forward, however, MCPI has plans to undertake a project capex to convert 100% of the chips into value-added products like yarn and fabrics, which is expected to strengthen the operating profile of the company.

Large capex requirement to increase downstream value-added facilities – GSMPL has a 700-TPD chips manufacturing facility, which has been non-operational for the last 7-8 years. MCPI has plans to restart the same and set up a solid-state polymerisation (SSP) plant to produce bottle grade chips. The company has plans to set up additional FDY lines to convert almost 100% chips into value-added products like yarns. This will require a sizeable capital expenditure over the medium term, a considerable part of which is expected to be funded by debt. However, strong parentage of MCPI, which is a part of the diversified TCG Group, as well as a large cash and bank balance at the consolidated level, provides considerable financial flexibility.

Exposure of profitability and cash flows to volatility in commodity prices – The major raw materials required by GSMPL are PTA and MEG. Both are derivatives of crude oil, prices of which remain volatile in nature. The consolidated profitability and cash flows are also exposed to variation in financial performance of MCPI, which in turn is dependent on the spread between its final product, PTA, and its key raw material, Px. The spread has witnessed a considerable volatility in the past.

Exposure of consolidated entity to various Group companies – As of March 2022, MCPI had Rs. 876.5 crore invested in Haldia Petrochemicals Limited (rated at [ICRA]AA-/Stable/A1+), a TGG group company. In addition, Rs. 1,010.6 crore has been invested in MCPI Global Pte Ltd, another TCG Group company, which was partly used to acquire stake in a global laboratory informatics developer, through convertible preference shares. Going forward, any large additional exposure to Group companies, which might impact the overall liquidity position, would remain a credit negative.

Liquidity position: Strong

The liquidity position is expected to remain strong, as evident from its large cash and liquid investments, aggregating to approximately Rs. 1,900 crore as on March 31, 2022 on a consolidated basis. Moreover, the company derives considerable financial flexibility for being a part of the TCG Group, which has a strong capital structure and experienced promoters.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of a timely completion of the project capex, without any material cost overrun leading to improved profitability. The consolidated Net Debt/OPBDITA remaining less than 1 times on a sustained basis could be a positive rating trigger.

Negative factors – The ratings could be downgraded if the consolidated Net Debt/OPBDITA remains higher than 1.5 times on a sustained basis. Also, any large debt-funded acquisition/expansion, or exposure to Group companies impacting the liquidity position or resulting in a deterioration in the capital structure, will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textiles Industry -Spinning
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GSMPL and its parent, MCPI Private Limited.

About the company

Garden Silk Mills Private Ltd. Is one of India’s leading man-made-fibre-based textile companies. It is a vertically integrated manufacturer of a wide range of polyester chips, polyester filament yarns (PFY), preparatory yarns, woven (grey) fabric as well as dyed and printed sarees and dress materials. It manufactures synthetic fabric under Garden and Vareli brands. The manufacturing facilities are located in Vareli (weaving unit) and Jolwa (chips and yarn units) in Surat district, Gujarat. GSMPL, under its Vareli brand, sells sarees and other women readymade garments through its distributors and retailers and is in the process of setting up franchise stores and online sales channels.

The insolvency petition against the company was admitted to NCLT on June 24, 2020. On January 1, 2021, NCLT approved the resolution plan submitted by MCPI Private Limited for acquisition of GSMPL via its 100% SPV, MCPI Polyester Pvt. Ltd., for a total consideration of Rs. 747 crore.

Key financial indicators (audited)

MCPI + GSMPL – Combined	FY2021	FY2022
Operating Income (Rs. crore)	6,987	11,368
PAT (Rs. crore)	380	626
OPBDIT/OI (%)	12.8%	10.1%
PAT/OI (%)	5.4%	5.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.74	0.71
Total Debt/OPBDIT (times)	1.94	1.66
Interest Coverage (times)	4.98	8.05

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					July 18, 2022	Feb 17, 2022	Mar 24, 2021	
1	Term Loan	Long-term	450.0	439.0	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A(Stable)	-
2	Term loan for Capex	Long-term	788.0	0.00	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A(Stable)	-
3	Fund based – Working capital limits	Long-term/Short term	200.0	-	[ICRA]A+(Stable)/ [ICRA]A1	[ICRA]A+(Stable)/ [ICRA]A1	[ICRA]A(Stable)/ [ICRA]A1	-
4	Non fund based – Working Capital limits	Long-term/Short term	350.0	-	[ICRA]A+(Stable)/ [ICRA]A1	[ICRA]A+(Stable)/ [ICRA]A1	[ICRA]A(Stable)/ [ICRA]A1	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loan	Simple
Term loan for Capex	Simple
Fund based – Working capital limits	Simple
Non fund based – Working Capital limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	FY2021	7.20%	FY2030	450.0	[ICRA]A+(Stable)
NA	Term loan for Capex	FY2023	7.35%	FY2032	788.0	[ICRA]A+(Stable)
NA	Fund based – Working capital limits	-	7.20%	-	200.0	[ICRA]A+(Stable)/ [ICRA]A1
NA	Non fund based – Working Capital limits	-	-	-	350.0	[ICRA]A+(Stable)/ [ICRA]A1

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name		Consolidation Approach
Garden Silk Mills Private Limited	100.0% subsidiary (rated entity)	Full Consolidation
MCPI Private Limited	100.0% (Parent entity)	Full Consolidation

Source: *Company*

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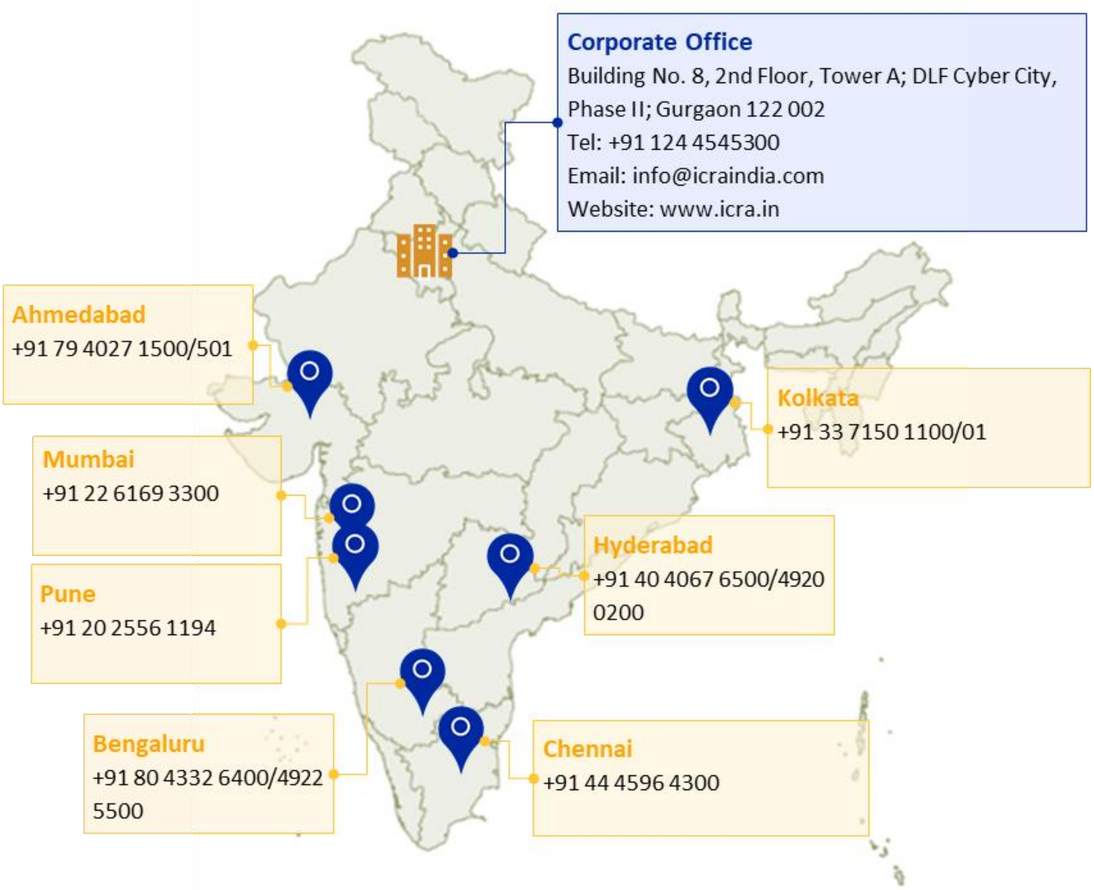

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