

January 25, 2023 ^(Revised)

Garware Technical Fibres Limited: Long-term rating upgraded to [ICRA]AA+; short-term rating reaffirmed at [ICRA]A1+; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term, Fund Based – Working Capital Facilities	145.00	145.00	[ICRA]AA+(Stable); long term rating upgraded from [ICRA]AA; outlook revised to Stable from Positive
Long Term / Short Term, Non Fund Based Facilities	90.00	90.00	[ICRA]AA+(Stable)/[ICRA]A1+; long term rating upgraded from [ICRA]AA; short term rating reaffirmed; outlook revised to Stable from Positive
Total	235.00	235.00	

*Instrument details are provided in Annexure-1

Rationale

The upgrade in the long-term rating of Garware Technical Fibres Limited (GTFL or the company) reflects its strong business and financial profiles, with a market-leading position across many of the segments and geographies that it operates in. The company's focus on value-added product offerings and efforts to introduce technologically advanced products continue to aid its business prospects as well as profitability, with GTFL reporting operating profit margins of 16-18% over the past few years. The company remains well diversified in terms of geographies and industry segments.

ICRA also takes note of GTFL's strong track record of reporting a conservative capital structure, strong liquidity position and healthy profitability indicators, supported by an improved product mix, prudent working capital management and strong cash flow generation from the business. Its liquidity position remains strong, with GTFL reporting cash and investments of Rs. 540+ crore as on September 30, 2022. Moreover, with strong accruals, prudent working capital management and moderate capex plans, it continues to generate free cash flow from operations. ICRA expects GTFL's capital structure as well as coverage indicators to remain strong going forward as well, with the company likely to remain in a net cash surplus position and the Total Debt/OPBIDTA expected to remain well below 1.0 times over the medium term.

The rating strengths are partially offset by a price-sensitive domestic market witnessing muted growth over the last few years, and competition from the unorganised segment. The relatively sluggish demand for key product segments in the domestic segment in the recent past, may restrict revenue growth prospects of the company. Further, the growth prospects and profitability of the company remain exposed to global economic activities and foreign exchange movements, given the substantial revenue contribution from exports.

The Stable outlook on GTFL's rating reflects ICRA's opinion that the company will continue to benefit from its established track record in the synthetic fibres industry in the domestic as well as overseas markets. The company demonstrates good revenue visibility on the back of its strong market presence across different product categories in the domestic and overseas markets.

Key rating drivers and their description

Credit strengths

Strong market position in domestic synthetic fibres industry; diversified revenue streams with steady and gradual growth in agri-tech, geo-synthetic business and coated fabrics – GTFL has over four decades of experience in the cordage industry

and commands a dominant share in the organised domestic market. Over the years, the company has established a healthy brand for its fishnets, ropes and twines, among others, catering to multiple business segments including fisheries, aquaculture, shipping and industrial sectors.

Healthy profitability, strong capital structure, coverage indicators and liquidity position; improved working capital cycle resulting in healthy cash flows – The company's profitability and return indicators remain strong with OPM of 16-18% and RoCE of more than 20% reported over the past few years, on the back of healthy operating performance and consistent improvement in the product mix towards value-added products. With the healthy cash flows generated from operations, and limited outgo for capex requirements, GTFL has also maintained a healthy capital structure, evident from its gearing and TD/OPBITDA of 0.1 times and 0.5 times, respectively, as on September 30, 2022. Also, its liquidity profile remains robust, with cash and liquid investments (including investments in fixed maturity plans) of more than Rs. 540 crore as on September 30, 2022, and sizeable unutilised bank lines (Rs. 47 crore as on September 30, 2022).

Widening portfolio of premium products driven by increased focus on value-added products – The share of GTFL's premium product portfolio has been increasing over the past few years, driven by increased focus on innovation and a customer-centric approach. The share of value-added products went up to 70-75% during the last three to four years from ~50%. The same ensures better pricing flexibility, amid the inflationary environment.

Geographically diversified revenue mix - Exports constituted around 65% of GTFL's revenue in FY2022. The company is present in more than 75 countries with healthy positioning in the developed markets such as North America and Europe, which contribute to the bulk of export revenues. Access to overseas markets insulates GTFL's revenue profile from fluctuations in the domestic market and provides higher growth opportunities. The company is gradually making inroads into new geographies, as well as expanding its premium product offerings for the export market.

Limited organised competition in domestic market in major product segments - The company competes with various organised as well as unorganised players in the domestic market. However, focus on premium products and investment in R&D has helped GTFL establish a brand name for itself in the market, and sustain its market position over the years.

Credit challenges

Price-sensitive domestic market can lead to volatility in operating margins – The company operates in a price sensitive and fragmented domestic market, which is characterised by unorganised players. Further, the upward price movements in end-products (fishnets, twines, ropes) could lead to demand pressure from the retail segment. However, supported by an increasing share of value-added content, a premium product portfolio and adequate pricing flexibility, GTFL continues to command healthy operating margins.

Sluggish domestic demand in key product segments restricting revenue growth prospects – The domestic demand in the company's key product segments has been relatively stagnant over the last few years due to GST implementation, demonetisation and cyclones in various parts, which has restricted revenue growth from the Indian market. However, GTFL is focussing on value-added products as well as exports to offset the muted demand in the domestic market. Export sales provide a substantial growth opportunity to the company, because of a larger market size and its competitive cost advantage over other players in the developed economies.

Growth prospects and profitability exposed to global economic environment and foreign exchange movements as export revenues contribute to over 60% of total revenues – GTFL derives more than 60% of its revenue share from the export market and, as a result, it remains exposed to the global economic environment and foreign currency volatility. To mitigate the demand risk from a specific overseas market, the company has been geographically diversifying its revenue base. Forex-related risks are mitigated to some extent by the natural hedge from imports (constituting less than 20% of raw material requirement), which, coupled with some hedging practices employed by the company, mitigate the foreign currency volatility to an extent. GTFL's profitability is also partially exposed to the volatility in crude oil prices as the prices of its key raw materials - mainly high-density polyethylene (HDPE) and polypropylene (PP), are linked to crude oil price movements.

Environmental and Social Risks

Environmental considerations: GTFL operates in the synthetic fibres space, which is characterised by processes and products which have environmental implications and is therefore exposed to the risk of tightening regulations related to environmental norms, and potential penalties in case of non-compliance. Further, as some part of the products that it supplies to are used in connection with natural resources (for example, fisheries), any restrictions on the use or on its customers in this space can have implications on the company's business. However, the company, on its part, has been undertaking various measures to ensure that such risks are mitigated to a large extent. Few of such measures include preferring HDPE over nylon for manufacturing its products so as to keep a check on carbon emissions, increasing usage of renewable energy sources, and focusing on product offerings which are more environment-friendly, such as cages with negligible copper sedimentation.

Social considerations: The company's exposure to social risks mainly pertains to safe operations and remaining compliant with various regulations to ensure the safety of employees and the community in the vicinity of its manufacturing units. Additionally, retention of skilled employees remains important from a business continuity point of view. For this, GTFL undertakes various initiatives periodically towards employee engagement, training and development, awards and recognition, welfare, etc.

Liquidity position: Strong

The company's liquidity profile is **strong**, supported by unencumbered cash and liquid investments of approximately Rs. 540 crore as on September 30, 2022, along with unutilised bank lines of Rs. 47 crore. Given healthy accruals and the absence of any large capital expenditure as well as no long-term debt exposure at present, the company is likely to generate free cash flows that further support its liquidity profile.

Rating sensitivities

Positive factors – Significant improvement in the scale of operations, on a sustained basis, and strengthening of the business profile through increased product diversification, while maintaining comfortable profitability and capital structure, may lead to a rating upgrade.

Negative factors – A rating downgrade could be triggered by a sustained slowdown in key end-user industries and markets, exerting pressure on liquidity, profitability or coverage indicators. A deterioration in coverage indicators, i.e., net debt/OPBIDTA above 0.5 times and TOL/TNW above 0.8 times on a sustained basis, might also lead to a downward rating. Any large debt-funded capital expenditure or inorganic investments leading to weakening of the credit profile or liquidity position, on a sustained basis, might also lead to a downward rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GTFL. As on March 31, 2022, the company had five subsidiaries, which are enlisted in Annexure-2.

About the company

GTFL is a leading player in technical textiles, specialising in providing customised solutions to the cordage and infrastructure industry worldwide. Its products find application across fisheries, aquaculture, shipping, sports, agriculture, coated fabrics and geo-synthetics segments. GTFL has two manufacturing facilities at Pune and Wai (in Satara district) in Maharashtra. It has an established presence in the export market with about 65% of the sales in FY2022 generated from exports. The company is listed on the Bombay Stock Exchange and the National Stock Exchange.

Key financial indicators

GTFL (consolidated)	FY2021 Audited	FY2022 Audited	H1 FY2023 Unaudited
Operating Income (Rs. crore)	1,034.6	1,189.4	660.5
PAT (Rs. crore)	158.4	164.8	76.0
OPBDIT/OI (%)	18.7%	17.3%	15.5%
PAT/OI (%)	15.3%	13.9%	11.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.5	0.4
Total Debt/OPBDIT (times)	0.5	0.4	0.5
Interest Coverage (times)	18.8	19.4	17.4

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

Source: GTFL, ICRA Research

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 of September 30, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					January 25, 2023	February 24, 2022	February 5, 2021	December 13, 2019	
1	Fund-based, Working Capital Facilities	Long-term	145.0	98.3	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
2	Non-Fund Based Facilities	Long-term/Short-term	90.0	NA	[ICRA]AA+ (Stable)/ [ICRA] A1+	[ICRA]AA (Positive)/ [ICRA] A1+	[ICRA]AA (Stable)/ [ICRA] A1+	[ICRA]AA (Stable)/ [ICRA] A1+	
3	Commercial Paper	Short-term	-	-	-	[ICRA]A1+ withdrawn	[ICRA]A1+	[ICRA]A1+	

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term, Fund Based – Working Capital Facilities	Simple
Long Term / Short Term, Non-Fund Based Facilities	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 analysing 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, are available on ICRA's website: [Click Here](#)

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	Fund Based, Working Capital Facilities	-	NA	-	145.0	[ICRA]AA+(Stable)
NA	Non Fund Based Facilities	-	NA	-	90.0	[ICRA]AA+(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	GTFL Ownership	Consolidation Approach
Garware Technical Fibres USA Inc.	100.00%	Full Consolidation
Garware Technical Fibres Chile SpA	100.00%	Full Consolidation
Garware Environmental Services Private Limited	100.00%	Full Consolidation
Garware Technical Textile Private Limited	100.00%	Full Consolidation
Garware Technical Fibres Foundation*	100.00%	Full Consolidation

Source: GTFL annual report FY2022; *w.e.f. August 3, 2021

Corrigendum

Rating rationale dated January 25, 2023 has been corrected with revision as detailed below:

Page 1: Sentence in the first paragraph of Rationale section has been revised (to correct a typographical error) as: The company's focus on value-added product offerings and efforts to introduce technologically advanced products continue to aid its business prospects as well as profitability, with GTFL reporting operating profit margins of 16-18% over the past few years.

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