September 05, 2023

Garden Silk Mills Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Term loans	1238.0	1208.0	[ICRA]A+ (Stable); Reaffirmed
Long term / Short term – Fund based working capital	200.0	200.0	[ICRA]A+ (Stable)/ [ICRA]A1; Reaffirmed
Long term / Short term – Non-fund based limits	350.0	300.0	[ICRA]A+ (Stable)/ [ICRA]A1; Reaffirmed
Long term / Short term – Unallocated limit	-	100.0	[ICRA]A+ (Stable)/ [ICRA]A1; Reaffirmed/ Assigned for enhanced amount
Total	**1788.0**	**1808.0**	

**Instrument details are provided in Annexure-I*

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 ratings reaffirmation considers a likely improvement in the consolidated financial performance of MCPI and GSMPL in the current fiscal after a weak performance in FY2023. GSMPL reported an operating loss of Rs. 112.3 crore in FY2023 on the back of high power and fuel cost due to a rise in the prices of coal used for power generation and heating, inventory losses due to a sharp decline in the prices of its key raw materials and a drop in realisations of yarn from Q2 FY2023. MCPI's operating profitability also declined sharply in FY2023. Interruption in power supply in its plant, leading to closure of operation for around two months, high cost of running the plant on alternative fuels for some time and higher repairing cost adversely impacted the company's profits. Moreover, a significant rise in the price and reduced availability of paraxylene (Px), MCPI's key raw material to produce purified terephthalic acid (PTA), consequent to the Russia-Ukraine conflict, also adversely impacted MCPI's profitability in FY2023. Besides, an increase in import of PTA from China at a cheap rate after easing of lockdown restrictions in the country from December 2022 and a decline in freight cost for imports also adversely impacted demand and realisation for domestic PTA. However, the Government has imposed the quality control order (QCO) for upstream products in the polyester value chain, including PTA, from July 2023, necessitating the products to conform to the quality specifications stipulated by the Bureau of Indian Standards (BIS), leading to an improvement in the realisation of domestic PTA. This coupled with a decline in power and fuel cost and higher production are likely to result in a significant improvement in MCPI's profits and cash accruals in the current fiscal, as reflected by an EBIDTA of Rs. 158 crore reported by MCPI in Q1 FY2024. GSMPL posted an operating loss in Q1 FY2024 on the back of muted realisations of synthetic yarns due to a supply glut of imported polyester yarns from China from December 2022. However, the likely implementation of QCO on polyester yarns in the near term, which has been deferred by the Government from July 2023, may significantly boost the profitability of the domestic spinners, including GSMPL, going forward. Besides, the capacity expansion of value-added yarns, which is likely to be completed by November/December 2023, would positively impact GSMPL's profitability.

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 producers of PTA, which is the key raw material for GSMPL. The ratings are, however, constrained by GSMPL's limited value addition at present as ~40% of the company's revenues was derived from the sale of low-margin polyester chips in FY2023, thus exposing the company to fluctuations in prices of its 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 PTA-Px spreads, which remains volatile. However, the acquisition of GSMPL by MCPI has resulted in forward integration into the polyester value chain for MCPI, wherein ~25% of the PTA produced is now being captively consumed by GSMPL, which will increase post its capacity expansion. Moreover, post successful completion of GSMPL's ongoing capex, which is aimed at increasing the share of value-added products, is expected to mitigate the consolidated entity's exposure to volatility in raw materials prices.

The ratings factor in the considerable financial flexibility of MCPI and GSMPL for being a part of the diversified TCG Group and having a large free cash balance at the consolidated level. However, ICRA notes MCPI's significant financial exposure to the related entities. GSMPL is implementing a large capex programme of Rs. 1,182 crore to increase the production of value-added yarns and commence production of bottle grade chips, which fetch higher realisation. The capex is being funded by term loans of Rs. 788 crore and the balance through internal accruals. Despite the large capex, the consolidated capital structure and the liquidity position are expected to remain comfortable. The entire debt for the project has been tied up and the major portion of the proposed internal fund has been brought in, mitigating funding risks for the capex. Nevertheless, completion of the entire capex within the budgeted cost and estimated timeframe and achievement of the expected operational parameters post project commissioning would remain important from the credit perspective.

The Stable outlook reflects ICRA's expectations that the consolidated profits and cash flows would improve significantly, going forward, aided by an increase in the share of value-added products, an improvement in the overall operating efficiency along with favourable realisations. Improving profitability, healthy cash balance and a conservative capital structure, despite the large ongoing capex, are likely to keep the consolidated entity's credit profile comfortable.

Key rating drivers and their description

Credit strengths

Likely improvement in the consolidated performance in the current fiscal after a weak performance in FY2023 – High power and fuel cost due to buoyant rise in the prices of coal used for power generation and heating, inventory losses due to a sharp decline in raw material prices and a drop in realisations of yarn from Q2 FY2023 adversely impacted GSMPL's performance in FY2023, as reflected by an operating loss of Rs. 112.3 crore posted during the year vis-à-vis an OPBDITA of Rs. 160.0 crore in FY2022. MCPI's OPBDITA also declined sharply to Rs. 263.3 crore in FY2023 from Rs. 972.5 crore in FY2022. Its operations were interrupted due to shutdown of the plant for around two months as a transformer became non-functional due to technical issues. High cost of running the plant on alternative fuels for ~3 months and repairing cost of the transformer adversely impacted the company's profits. Moreover, a significant rise in the raw material prices a normalisation of shipping freight cost in FY2023, from an elevated level in FY2022, which reduced the spread between the imported and domestic PTA prices, and dumping of PTA from China from December 2022 also adversely impacted MCPI's profitability in FY2023. However, the implementation of QCO by the Government on PTA, from July 2023, has resulted in an increase in PTA prices in the domestic market. This coupled with lower power and fuel cost and an improvement in production are likely to result in a significant increase in MCPI's profits and cash accruals in the current fiscal, a trend which is already visible in its performance in Q1 FY2024. GSMPL has recently tied up for supply of renewable power of 3.5 MW at a favourable tariff and is in the process of increasing its contracted power load from the state utility, which will provide flexibility in sourcing power and optimisation of cost. A supply glut of imported polyester yarns from China from December 2022 continues to affect realisation of polyester yarns in the domestic market. However, the likely implementation of QCO on polyester yarns in the near term, which has been deferred by the Government from July 2023, would support yarn prices in the domestic market, benefitting GSMPL. Besides, GSMPL's ongoing capex for capacity expansion of value-added yarns, which is likely to be completed by November/December 2023, is likely to positively impact GSMPL's profitability.

Established market 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, woven (grey) fabric as well as dyed and printed sarees and dress materials. It manufactures and sells synthetic fabric under the brand name 'Garden Vareli'. GSMPL sells yarns directly to textile manufacturers and through dealers. It sells sarees and other women's readymade garments through its established network of distributors and retailers.

Strong parentage and healthy financial flexibility – GSMPL was acquired in FY2021 by MCPI, a part of The Chatterjee Group (TCG). The Group, with a strong promoter and diversified business interests, has a conservative capital structure and a large cash balance, which provide considerable financial flexibility to GSMPL and MCPI. GSMPL receives working capital related support from its parent MCPI.

Considerable operational synergies between GSMPL and its holding company, MCPI – 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 a scope for value addition at the consolidated level. Going forward, the consolidated entity's operating profile is likely to be stronger, post implementation of the ongoing capacity expansion for value-added products in GSMPL.

Capital structure to remain healthy despite the large ongoing capex – GSMPL was admitted to the National Company Law Tribunal (NCLT) in June 2020 under the Insolvency and Bankruptcy Code (IBC). 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 has remained comfortable. The consolidated gearing stood at 0.5 times as on March 31, 2023. Sizeable free cash balance and liquid investments of the consolidated entity kept the net gearing even at a lower level of 0.3 times as on March 31, 2023. Despite Rs. 788 crore term loans being availed to fund the ongoing capex of Rs. 1,182 crore, the consolidated capital structure would remain conservative, aided by healthy accretion to reserves expected in the near-to-medium term.

Credit challenges

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.

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. However, GSMPL's ongoing capex to increase the capacities of value-added yarns (likely to be commissioned in November/December 2023) and to commence production of bottle-grade chips (from FY2026), which fetch higher realisations, is expected to strengthen the operating profile of the consolidated entity.

Project risks related to the large ongoing capex – GSMPL's operational polyester chips manufacturing capacity is 1,000 tonnes per day (TPD) at present. It also has a 700-TPD chips manufacturing facility, which has been non-operational for the last 8-9 years. The company has undertaken a capex to restart the same and has planned to set up a solid-state polymerisation (SSP) plant to produce bottle grade chips, which fetch higher realisations. The company is also in the process of increasing the capacity of value-added yarns and the contracted load of its grid power. The total cost of the project has been estimated at ~Rs. 1,182 crore, being funded by term loans of Rs. 788 crore and internal accruals of ~Rs. 394 crore. Restart of the 700-TPD chips manufacturing facility and commissioning of the value-added yarn capacities are likely to take place in November/December 2023, however, the SSP facility to manufacture bottle grade chips is likely to be commissioned in FY2026. Successful financial closure and infusion of the major portion of internal funding committed for the capex mitigate the funding risks to a large extent. ICRA expects the consolidated capital structure and the liquidity position to remain comfortable despite the large capex. The capex is expected to result in a significant value addition, thereby increasing the operating margins, post commissioning. However, GSMPL would remain exposed to the project risks associated with the capex. Any significant cost/time overrun or a delay in stabilisation of the facilities post commissioning may negatively impact the company's cash flows.

Exposure of consolidated entity to various Group companies – MCPI has sizeable investments in MCPI Global Pte Ltd, a TGG Group company, which was partly used to acquire a stake in a global laboratory informatics developer through convertible preference shares. MCPI has also provided loans to other related entities. However, a significant portion of the loans has been received in the current fiscal. Going forward, any large additional exposure to Group companies, which might impact the overall liquidity position, would remain a credit negative.

Liquidity position: Adequate

The liquidity position of the consolidated entity is expected to remain **adequate**. The consolidated cash flow from operation turned negative in FY2023 due to a deterioration in the operating profitability and an increase in the working capital requirement. However, the consolidated cash flow from operation is likely to turn positive and remain heathy in FY2024. Out of the ongoing capex of Rs. 1,182 crore, around 66% has been incurred so far and the major portion of the proposed internal funding has already been infused. Hence, the pending capex will be primarily funded by term loans which have been fully tied up. The company also plans to undertake additional capex to improve operational efficiency of the plant, which is likely to be funded by debt and internal accruals at a ratio of 2:1. The repayment of the loans contracted for the ongoing capex would commence only from FY2027, with a ballooning structure. An improving cash flow from operation, an adequate undrawn working capital limit and sizeable free cash balance vis-à-vis the debt repayment obligations over the near to medium term would support the consolidated liquidity position.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the consolidated profits and cash accruals improve significantly, aided by capacity expansion of value-added products. A consolidated DSCR of more than 3.0 times on a sustained basis may result in upgrade of the ratings.

Negative factors – The ratings could be downgraded if the consolidated DSCR remains lower than 1.8 times on a sustained basis. Also, any further large debt-funded acquisition/expansion, or incremental 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 Textiles - Spinning
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of GSMPL with its holding company, which is enlisted in Annexure-II

About the company

Garden Silk Mills Private Limited (erstwhile Garden Silk Mills Limited) 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 the brand 'Garden Vareli'. The manufacturing facilities are located at Jolwa (chips and yarn units) and Vareli (weaving unit) in Surat district, Gujarat.

GSMPL was acquired by The Chatterjee Group (TCG), led by Dr. Purnendu Chatterjee, in FY2021. 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 (MCPI; a part of TCG) for acquisition of GSMPL via its 100% SPV, MCPI Polyester Pvt. Ltd., for a total consideration of Rs. 747 crore. MCPI is the holding company of GSMPL.

Key financial indicators (audited)

GSMPL	Standalone		Consolidated*	
	FY2022	FY2023	FY2022	FY2023
Operating income	3463.1	3449.8	9,330.9	9,703.7
PAT	62.6	-198.2	625.3	174.5
OPBDIT/OI	4.6%	-3.3%	12.1%	1.6%
PAT/OI	1.8%	-5.7%	6.7%	1.8%
Total outside liabilities/Tangible net worth (times)	0.6	1.0	0.8	0.8
Total debt/OPBDIT (times)	3.6	-7.0	1.7	14.6
Interest coverage (times)	2.7	-2.9	8.8	1.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore
*Source: Company, ICRA Research; *ICRA estimates*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Sep 5, 2023	Jul 18, 2022	Feb 17, 2022	Mar 24, 2021
1	**Term loans**	Long term	1208.0	635.6	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**
2	**Fund based working capital**	Long / short term	200.0	-	**[ICRA]A+ (Stable) /[ICRA]A1**	**[ICRA]A+ (Stable) /[ICRA]A1**	**[ICRA]A+ (Stable) /[ICRA]A1**	**[ICRA]A (Stable) /[ICRA]A1**
3	**Non-fund based limits**	Long / short term	300.0	-	**[ICRA]A+ (Stable) /[ICRA]A1**	**[ICRA]A+ (Stable) /[ICRA]A1**	**[ICRA]A+ (Stable) /[ICRA]A1**	**[ICRA]A (Stable) /[ICRA]A1**
4	**Unallocated limit**	Long / short term	100.0	-	**[ICRA]A+ (Stable) /[ICRA]A1**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Fund based working capital	Simple
Non-fund based limits	Very simple
Unallocated limit	Not applicable

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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan- 1**	Jan-21	-	FY2030	420.00	[ICRA]A+ (Stable)
NA	**Term Loan- 2**	Dec-22	-	Aug-32	238.00	[ICRA]A+ (Stable)
NA	**Term Loan- 3**	Jan-23	-	Aug-32	200.00	[ICRA]A+ (Stable)
NA	**Term Loan- 4**	Jun-22	-	Aug-32	150.00	[ICRA]A+ (Stable)
NA	**Term Loan- 5**	Dec-22	-	Aug-32	100.00	[ICRA]A+ (Stable)
NA	**Term Loan- 6**	Nov-22	-	Aug-32	100.00	[ICRA]A+ (Stable)
NA	**Fund based working capital**	-	-	-	200.0	[ICRA]A+ (Stable)/[ICRA]A1
NA	**Non-fund based limits**	-	-	-	300.0	[ICRA]A+ (Stable)/[ICRA]A1
NA	**Unallocated limit**	-	-	-	100.0	[ICRA]A+ (Stable)/[ICRA]A1

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	GSMPL's Ownership	Consolidation Approach
MCPI Private Limited*	-	Full Consolidation

*Source: Company; *Holds 100% shares of GSMPL*

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