ICRA

Garware-Wall Ropes Limited

Basel II

Facility	Amount	Rating Action
Long Term - Fund Based Limit	Rs. 145.39 crore	[ICRA]AA-(Stable); upgraded from [ICRA]A+(Positive)
Long Term - Term Loan	Rs. 12.20 crore	[ICRA]AA-(Stable); upgraded from [ICRA]A+(Positive)
Long Term - Non Fund Based Limit*	Rs. 135.00 crore	[ICRA]AA-(Stable); upgraded from [ICRA]A+(Positive)
Long Term – Unallocated	Rs. 7.41 crore	[ICRA]AA-(Stable); upgraded from [ICRA]A+(Positive)
Short Term - Non Fund Based Limit*	Rs. 135.00 crore	[ICRA] A1+ reaffirmed

** The Non Fund Based Limits under long term and short term tenure are interchangeable and as such the combined utilization should not exceed Rs 135.00 crore*.

Debt

Facility	Amount	Rating Action
Commercial Paper	Rs. 15.00 crore	[ICRA] A1+ reaffirmed

ICRA has upgraded the long-term rating assigned to the bank facilities of Garware-Wall Ropes Limited (GWRL)[†] to [ICRA]AA- (pronounced ICRA double A minus) from [ICRA]A+ (pronounced ICRA A plus) for Rs. 145.39 crore[1] Fund based limit, Rs. 12.20 crore term loan, Rs. 135.00 crore Non Fund based limits and Rs. 7.41 core unallocated amount. The outlook on the long-term rating is Stable. ICRA has also reaffirmed [ICRA]A1+ (pronounced ICRA A one plus) short-term rating for the Rs 135.00 crore Non Fund based limit of GWRL. The Non Fund Based Limits under the long-term and the short-term tenure are interchangeable and as such the combined utilization should not exceed Rs 135.00 crore. ICRA has also reaffirmed the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 15.00 crore Commercial Paper program of GWRL.

The rating upgrade takes into account improvement in financial profile of the company with enhanced operating margins and profitability as a result of change in product mix in favour of value added products which command premium, greater diversification with increasing share of business from coated fabrics and agri-tech divisions and expanding export reach and healthy cash flows resulting from improvement in working capital intensity. Aforesaid factors have resulted in strong capital structure and coverage metrics and healthy liquidity position of the company in FY2016.

The ratings continue to derive comfort from well entrenched position of GWRL in the domestic market with sizeable market share over the years in fishnet, ropes and twines business and increased focus on research & development and customer centric approach which has enabled increase in share of premium product portfolio in the revenue stream and is driving the overall growth and profitability of the company. With high quality product portfolio, the company has been able to maintain its high bargaining power and maintain its product prices in the retail segment despite drop in raw material prices leading to improvement in the overall contribution margin. The company has established presence in the export markets which insulates the revenue profile from fluctuations in the domestic market and has achieved greater diversification in the domestic market with steady and gradual growth in coated fabrics and agri-tech business which carry high demand potential in the medium to long term. The domestic volume growth was stagnant till FY2015 due to subdued economic activity, fishing industry and industrial scenario; however with development of new innovative products the company has been able to grab additional market share which resulted in moderate domestic volume growth in FY2016. The company continues to benefit to some extent from rupee depreciation with significant share of revenues (~46% in FY2016) derived from export markets. As on Mar-16, the company had cash & bank balance to the tune of ~Rs. 81 crore which coupled with unused fund based bank lines provides sufficient

[†] For complete rating definition please refer to ICRA website www.icra.in or any of the ICRA Rating Publications.
[1] 100 lakh = 1 crore = 10 million

liquidity and financial flexibility to the company. ICRA takes note of highly price sensitive domestic market and competition from unorganized segment which limits the pricing flexibility and results into moderate margins; however widening premium product portfolio and high bargaining power has resulted in improved operating margins in FY2016 and ability of the company to sustain the same in future will remain crucial. Domestic demand in key product segments remains stagnant restricting the revenue growth prospects; though company was able to register moderate volume growth in domestic market in FY2016 supported by increase in market share. ICRA also takes into account working capital intensive operations of the company on account of diversified product profile and inherent nature of business; however GWRL had adequately managed its working capital cycle in FY2016 which resulted in healthy cash flows and liquidity position. Going forward, pickup in economic activity and end user industries for stimulating the demand, further improvement in share of value added product profile and higher than anticipated increase in working capital intensity will remain key rating sensitivities.

GWRL is the largest domestic manufacturer of high-density polyethylene (HDPE) fishnets, twines and ropes. The company holds a dominant share of the domestic market with its fishnet brands Garfil and Sapphire, mainly on the strength of its brand image, product quality, and wide dealer network, which ensures ready availability of its products. These factors, in turn, have enabled GWRL command price premium over competing products. The fishing industry has been experiencing muted growth over the past few years and it being a major user of GWRL's products, the company has experienced pressure on domestic volumes. However GWRL's sales growth has been driven by increasing share of value added products (such as aquaculture net, sports net, braided nets) primarily in export markets, and increasing share of revenues from agri-tech and coated fabrics divisions to some extent. Though, during FY2016, the company witnessed moderate growth in domestic volumes on account of gain in market share supported by development of new products. During FY2016, GWRL registered sales growth of ~5% supported by volume growth while the realizations witnessed a marginal drop in line with drop in prices of key raw materials. The profitability had improved in FY2016 due to increased share of value added products, company retaining benefit of raw material price decline and rupee depreciation.

The domestic volume growth witnessed a moderate growth of ~10% in FY2016 due to gain in market share supported by development of new products which coupled with growth in realization on account of increase in share of value added products (variants of X2 and Plateena ropes which command premium) led to ~16% growth in domestic sales. The company has been carrying out knowledge sharing activities across the states to educate fishermen and other retail customers about the value proposition offered by its products which has resulted in product acceptance in new geographies as well as increase in overall market share in the organized segment. In the industrial products division as well, the company had introduced value added products to curb the pressure from muted industrial activity which had resulted in improvement in segment's contribution margin.

On the other hand, the export sales witnessed a marginal drop in FY2016 mainly due to drop in realization in line with drop in prices of key raw materials, however the company was able to maintain contribution margin across the product segments. The company maintains high margin product profile in the export market and its product range has been well accepted across the geographies and customer base. Currently export contributes to ~46% of the total revenues with relatively stable operating margins given its premium product profile. GWRL has been selectively expanding to new export geographies while maintaining its premium product profile and offering customized solutions to new customers. The export revenues, to some extent, continue to remain supported by rupee depreciation. The company also benefits from intersegment sales wherein ropes and coated fabrics which have lower margin (as compared to net assembly) form a part of net assembly and as a result, blended contribution margin increases. In the exports geographies, the European and USA/Canada market continued to register healthy growth and are expected to remain key contributor, going forward as well.

The company has shifted its focus on value added products such as aquaculture and sports net and business segments like agri-tech and coated fabrics to diversify its revenue stream. Products like aquaculture cages, predator nets and sports nets have much better realization and higher profitability than regular nets and ropes. Further, with increased focus on research & development, the company has designed several innovative products across the segments such as ropes, predator nets and agri-tech among others which command premium and hence fetch better margins. GWRL over the years has gained high expertise in extrusion technology which has helped the company to replace nylon based products in the market with HDPE products. Owing to several advantages of HDPE over Nylon such as high tolerance, non-hygroscopic nature, reduced stickiness of algae and lower cost, the company has been able to deliver customized solution to its customers based on HDPE products. All these efforts have started reaping benefits for the company which is reflected in improved profitability in FY2016.

Further, the revenue from other business segments such as agri-tech and coated fabrics has been growing gradually. Considering high share of agriculture in the Indian economy, the potential of agri-tech business remains huge, however due to unorganized nature of agriculture, the growth has followed a slower pace. The company has been at the forefront of various efforts to foster the growth of protected cultivation and has created a separate unit comprising of agronomists, R&D personnel, and market outreach teams to increase penetration. The government provides 50% capital subsidy for the protective farming projects and the same has provided boost to the segment revenues. The coated fabrics division has also gained foothold in the domestic market within a short span of time given good product quality, large distribution reach and competitive pricing. Geo synthetics business is closely related to infrastructure segment and being project based nature of business the revenues remain volatile. The segment's revenues registered drop in FY2016; management has been selective in bidding for projects with major focus on private projects in view of timely debtor recovery. In the recent past, the company has developed and supplied products for defence segment as well which includes aerostat balloons, flexi-helipads and inflated structures for housing radars and have been well accepted by defence authorities. In the near to medium term, the management is positive of gaining further orders from defence sector.

During FY2016, the company has reported healthy performance with improved operating margins of 12.1% from 10.2% in FY2015 due to increase in contribution margin supported by higher share of value added products and softening of raw material prices and company retaining the benefit for many of the product segment owing to its high bargaining power with retail customers. In line with improved operating margins, lower interest expenses and higher non operating income, the net margins and profitability of the company improved considerably in FY2016 with PAT/OI of 7.5% and RoCE of 23.1%.

The capital structure of the company remains strong with improved gearing of 0.13x as on Mar-16 on account of reduced debt levels coupled with healthy net worth position. In line with low debt levels and healthy accruals, the coverage metrics of the company remain strong with TD/OPBDITA of 0.47x and interest coverage of 11.46x as on Mar-16. The working capital intensity of the company had improved to ~19% in FY2016 from ~27% in FY2015 owing to adequate management of working capital cycle. The same coupled with improved profitability resulted in healthy cash flows and liquidity position. As on Mar-16, the company had cash & bank balance to the tune of ~Rs. 81 crore which coupled with unused fund based bank lines provides sufficient liquidity and financial flexibility to the company.

Company Profile

Garware – Wall Ropes Limited ("GWRL"/"the company") is a leading player in Technical Textiles, specializing in providing customized 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 geosynthetics. GWRL products are manufactured in three manufacturing facilities out of which two are near Pune and another manufacturing unit is near Silvassa. It has an established presence in the export market with about 46% of the sales (FY2016) being generated from exports. The company is listed at the BSE and NSE and the promoters hold 50.64% stake in the company (Mar 2016).

Recent Results

During FY2016, GWRL has reported a net profit of Rs 61.88 crore on OI of Rs 826.70 crore.

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