

February 24, 2022

Garware Technical Fibres Limited: Bank Loan Ratings reaffirmed; outlook revised to Positive from Stable; Rating withdrawn on commercial paper programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term, Fund Based – Working Capital Facilities	145.39	145.00	[ICRA]AA(Positive); reaffirmed, outlook revised to Positive from Stable
Long Term / Short Term, Non-Fund Based Facilities	90.00	90.00	[ICRA]AA(Positive)/ [ICRA]A1+; reaffirmed, outlook revised to Positive from Stable
Commercial Paper	15.00	0.00	[ICRA]A1+; reaffirmed and withdrawn
Total	250.39	235.00	

*Instrument details are provided in Annexure-1

Rationale

The short-term rating outstanding on the commercial paper programme of Garware Technical Fibres Limited (GTFL) has been withdrawn at the request of the company. There is no amount outstanding against the said facility.

The revision of the outlook on the long-term rating to Positive takes into account the consistently healthy financial performance demonstrated by GTFL and the steady profitability maintained by the company even during difficult business environment in FY2022 (hit by pandemic-induced disruptions) and ICRA's expectation that it will continue to do so going forward. GTFL's dominant market presence and the increasing share of exports in the overall revenue pie of the company have also been considered while revising the outlook to Positive.

The ratings continue to derive comfort from the well-entrenched position of GTFL in the domestic market with healthy market position in fishnet, ropes and twines business. 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 commands premium over its existing product. Its liquidity position remains strong, with GTFL reporting cash and investments (including investments of over ~Rs. 200 crore in fixed maturity plans) to the tune of Rs. 500 crore as on March 31, 2021 and ~Rs. 550 crore as on September 30, 2021. ICRA expects its credit profile to improve further over the medium to long-term, supported by strong accruals and healthy growth prospects in the overseas market. 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 reaffirmation of bank loan ratings reflects GTFL's conservative capital structure, strong liquidity position, healthy profitability indicators supported by improved product mix, prudent working capital management and strong cash flow generation from the business. GTFL remains well diversified in terms of geography, business segments and product profile. Moreover, due to strong accruals, prudent working capital management as well as moderate capex plans, it continues to generate free cash flow from business (FY2021). ICRA expects GTFL's capital structure as well as coverage indicators to remain strong with the company likely to remain in net cash surplus position and the Total Debt/OPBIDTA expected to remain below 1.0 times over the medium term. Owing to consistent focus on value-added products, the company was able to gradually expand its OPBIDTA margin over the last five years, despite the short-term impact of the Covid-19 pandemic during FY2021 and present fiscal, i.e. FY2022.

GTFL's operating margin was moderated to an extent in H1FY2022 as compared to FY2021 on account of increased input costs (raw material and freight costs) in the present fiscal; however, with the company able to fully pass on the input costs increase with certain lag to its customers, the operating margin is expected to regain its momentum in the upcoming quarters.

Key rating drivers and their description

Credit strengths

Strong market position in domestic sector; 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 a period, 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 remains strong with RoCE of 20%+ during the last few years on the back of healthy operating performance and consistent improvement in product mix. The performance in FY2021 and H1FY2022 has been steady, despite being impacted to an extent by the pandemic-induced disruptions through the period under consideration. Also, its liquidity profile was robust with cash and investments (including investments in fixed maturity plans) of over Rs. 500 crore as on March 31, 2021 and sizeable unutilised bank lines. Moreover, the capital structure continued to remain strong with gearing and TD/OPBITDA of 0.2 times and 0.8 times, respectively, as on September 30, 2021.

Widening portfolio of premium products driven by increased focus on value added products – The share of GTFL's premium product portfolio has been increasing during the last few years, driven by increased focus on innovation and a customer-centric approach. The share of value-added products went up to 70-75% from around 50% during the last three to four years. The same ensures better pricing flexibility, amid volatile input prices, especially for commodities linked with global crude prices.

Geographically diversified revenue mix – Exports constituted 62% of GTFL's revenue in FY2021. The company is present in more than 75 countries with healthy positioning in 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, while expanding its premium product offering 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 helped in sustaining its market position. Coupled with its established brand name and quality products because of better understanding of fibre technology and polymer processing, this enables GTFL to command adequate pricing power.

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. Furthermore, the upward price movement 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 pricing flexibility, GTFL has been able to improve its operating margins over the last few years.

Sluggish domestic demand in key product segments restricting revenue growth prospects – The domestic demand in the company's key product segments has been 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. 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. Also, the firm continuously explores opportunities to enhance its customer offering to drive the top line.

Profitability exposed to global economic activities as export revenues contribute to over 50% of total revenues – GTFL derives more than 50% of its revenue share from the export market and as a result, it remains exposed to global economic activities and foreign currency volatility. To mitigate the demand risk from a specific overseas market, the company has been geographically diversifying its revenue base. It adopts a conservative hedging policy, which along with natural hedge from imports (constituting less than 20% of raw material requirement), mitigates the foreign currency volatility to an extent. GTFL’s profitability remains partially exposed to the volatility in crude oil prices as the prices of its key raw materials are linked to crude oil price movements.

Liquidity position: Strong

The company’s liquidity profile is Strong, supported by unencumbered cash and liquid investments of ~Rs. 500 crore as on March 31, 2021, and ~Rs. 550 crore as on September 30, 2021, along with unutilised bank lines. Given healthy accruals and the absence of any large capex as well as debt repayment obligations, the company is likely to generate free cash flows that further add to its liquidity profile.

Rating sensitivities

Positive factors – Demonstration of a strong liquidity position while maintaining the current level of profitability and capital structure on a sustained basis, might lead to a rating upgrade.

Negative factors – A rating downgrade could be triggered by a sustained slowdown in key end-user industries, exerting pressure on profitability and coverage indicators. A deterioration in coverage indicators, i.e., net debt/OPBIDTA above 1.0 time and TOL/TNW above 1.0 time on a sustained basis might also lead to a downward rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Policy on Withdrawal of Credit Ratings
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GTFL. As on March 31, 2021, the company had 4 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 62% of the sales (FY2021) generated from exports. The company is listed on the Bombay Stock Exchange and National Stock Exchange.

Key financial indicators

GTFL	FY2020 Audited	FY2021 Audited
Operating Income (Rs. crore)	969.7	1045.3
PAT (Rs. crore)	140.5	158.4
OPBDIT/OI (%)	18.3%	19.5%
PAT/OI (%)	14.5%	15.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.6
Total Debt/OPBDIT (times)	0.7	0.5
Interest Coverage (times)	15.4	19.8

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 (FY2022)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of September 30, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					February 24, 2021	February 5, 2021	Dec 13, 2019	Sep 25, 2018
1	Fund-based	Long-term	145.00	NA	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Non-Fund Based Facilities	Long-term/Short-term	90.00	NA	[ICRA]AA (Positive)/[ICRA] A1+	[ICRA]AA (Stable)/[ICRA] A1+	[ICRA]AA (Stable)/[ICRA] A1+	[ICRA]AA (Stable)/[ICRA] A1+
3	Commercial Paper	Short-term	15.00	-	[ICRA]A1+ withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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
Commercial Paper	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, 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	Fund Based Facilities	-	NA	-	145.00	[ICRA]AA (Positive)
NA	Non Fund Based Facilities	-	NA	-	90.00	[ICRA]AA (Positive)/ [ICRA]A1+
Not placed	Commercial Paper	-	NA	-	15.00	[ICRA]A1+ withdrawn

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

Source: GTFL annual report FY2021

Note: ICRA has taken a consolidated view of the parent (GTFL), its subsidiaries and associates while assigning the ratings.

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