December 13, 2019

Garware Technical Fibres Limited: Ratings reaffirmed at [ICRA]AA(Stable) and [ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Fund-based	Rs.175.00 crore	Rs.145.39 crore	[ICRA]AA(Stable) reaffirmed
Non-Fund Based Facilities	Rs.165.00 crore	Rs.135.00 crore	[ICRA]AA(Stable) / [ICRA]A1+ reaffirmed
Commercial Paper	Rs.15.00 crore	Rs.15.00 crore	[ICRA]A1+ reaffirmed
Total	**Rs.355.00 crore**	**Rs.295.39 crore**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings reflects Garware Technical Fibres Limited's (GTFL) 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. Owing to consistent focus on value added products, the company was able to gradually expand its OPBIDTA margin to 18.9% in FY2019 from 10.0% in FY2015. Moreover, due to strong accruals, prudent working capital management as well as moderate capex plans, it continues to generate free cash flow from business. 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 1.0x over the medium term.

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. 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.

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 command premium over its existing product. Its liquidity position remains strong, with GTFL reporting cash and investments (including investments of ~Rs. 250 crore in fixed maturity plans) to the tune of Rs. 350 crore as on September 2019. ICRA expects its credit profile to improve further over the medium to long term, supported strong accruals and healthy growth prospects in the overseas market. ICRA expects the company to maintain its credit profile through its organic or inorganic investment plans. However, the impact of any such investments, on the credit profile would be evaluated by ICRA on a case-by-case basis.

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.

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 26.0% in FY2019 on account of healthy operating performance and improved product mix. Its liquidity profile is robust with cash and investments (including Rs. 250 crore of investments in fixed maturity plans) of over Rs. 350 crore as on September 2019 and sizeable unutilised bank lines.

Widening portfolio of premium products driven by increased focus on value added products – The share of premium product portfolio has been increasing during the last few years, driven by increased focus on innovation and customer-centric approach. The share of value added products has gone up to 65%-70% from 35% during the last three to four years and it contributes to 70-75% of the profit, at present. The same ensures better pricing flexibility, amid volatile input prices, especially for commodities linked with global crude prices.

Geographically diversified revenue mix – Exports constituted 57% of GTFL's revenue in FY2019. The company has presence in more than 75 countries with healthy market positioning in the developed markets such as North America and Europe, which contribute to the bulk of export revenues. Access to overseas market insulates its revenue profile from fluctuations in the domestic market and provides higher growth opportunities. The company is gradually making inroads in 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. This coupled with established brand name and quality products because of better understanding of fibre technology and polymer processing 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 fragmented domestic market, which is characterised by the presence of 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 increasing share of value-added content, premium product portfolio and pricing flexibility, GTFL has been able to improve its operating margins over the last few years.

Stagnant domestic demand in key product segments – The domestic demand in the company's key product segments has been stagnant over the last few years, which has restricted revenue growth from the Indian market. GTFL is focussing on value added products as well as exports market to offset the muted demand in domestic market.

Profitability exposed to global economic activities as export revenues contribute to over 50% of total revenues – GTFL derives nearly 57% 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. GTFL's profitability remains exposed to volatility in crude oil prices as the prices of key raw materials used by the company are linked to crude oil price movement. Higher-than-anticipated increase in the crude oil prices can impact its profitability, given price sensitive nature of the end user industries.

Liquidity position: Strong

The company's liquidity profile is strong, supported by cash and investments (including investments in FMPs worth Rs. 250 crore as of March 2019) of Rs. 350 crore as on September 2019, along with unutilised bank lines. Given its healthy accruals and absence of any large capex as well as debt repayment obligations, GTFL is likely to generate free cash flows, which adds to its liquidity profile.

Rating sensitivities

Positive triggers – Significant improvement in scale of operations, while maintaining current level of profitability and capital structure might lead to a rating upgrade.

Negative triggers – Sustained slowdown in key end-user industry, thereby exerting pressure on profitability and coverage indicators; deterioration in coverage indicators i.e. net debt/OPBIDTA above 1.0 times and TOL/TNW above 1.5 times on a sustained basis might lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation / Standalone	Rating is based on the standalone financials

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 in Maharashtra located in Pune and Wai (Satara district). It has an established presence in the export market with about 57% of the sales (FY2019) being generated from exports. The company is listed on the Bombay Stock Exchange and National Stock Exchange.

Key financial indicators

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	884.6	1017.8
PAT (Rs. crore)	105.1	125.6
OPBDIT/OI (%)	18.1%	18.9%
RoCE (%)	25.7%	26.0%
Total Debt/TNW (times)	0.3	0.2
Total Debt/OPBDIT (times)	0.9	0.6
Interest Coverage (times)	16.1	14.0

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding*	Date & Rating in FY2020 13-Dec 2019	Date & Rating in FY2019 25-Sep 2018	Date & Rating in FY2018 10-Aug 2017	Date & Rating in FY2017 14-Jul 2016
1	Fund-based	Long-term	Rs.145.39 crore	Rs. 120.70 crore	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Non-Fund Based Facilities	Long-term/ Short-term	Rs.135.00 crore	Rs. 42.16 crore	[ICRA]AA (Stable)/ [ICRA] A1+	[ICRA]AA (Stable)/ [ICRA] A1+	[ICRA]AA- (Stable)/ [ICRA] A1+	[ICRA]AA- (Stable)/ [ICRA] A1+
3	Commercial Paper	Short-term	Rs.15.00 crore	NIL	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*Source: The company; *-Amount Outstanding as on September 30, 2019*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
NA	Fund-based	-	NA	-	Rs.145.39 crore	[ICRA]AA(Stable)
NA	Non-Fund Based Facilities	-	NA	-	Rs.135.00 crore	[ICRA]AA(Stable)/ [ICRA] A1+
NA	Commercial Paper	-	NA	-	Rs.15.00 crore	[ICRA]A1+

Source: The company

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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