February 5, 2021 Revised

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based	Rs.145.39 crore	Rs.145.39 crore	[ICRA]AA(Stable) reaffirmed
Non-Fund Based Facilities	Rs.135.00 crore	Rs.90.00 crore	[ICRA]AA(Stable) & [ICRA]A1+ reaffirmed
Commercial Paper	Rs.15.00 crore	Rs.15.00 crore	[ICRA]A1+ reaffirmed
Total	**Rs.295.39 crore**	**Rs.250.39 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. 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. 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. After a muted Q1 FY2021 because of the lockdown impact, GTFL witnessed a strong recovery in Q2 FY2021 led by good demand across both the domestic as well as international markets, resulting in better profitability than that of the last year.

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. 250 crore in fixed maturity plans) to the tune of Rs. 400 crore as on March 31, 2020. 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.

ICRA notes the announcement of share buyback worth Rs. 73.0 crore by GTFL, post-tax would result in cash outflow of about Rs. 90.0 crore for the firm. Despite sizable cash outflow for share buyback, GTFL will have healthy free cash flows in FY2021. ICRA also 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 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 25-26% during the last few years because of healthy operating performance and consistent improvement in product mix. The performance in FY2020 was exceptional, despite being impacted (ROCE of 22.4%) by the nationwide lockdown during the end of the fiscal. Also, its liquidity profile was robust with cash and investments (including investments in fixed maturity plans) of over Rs. 400 crore as on March 31, 2020 and sizeable unutilised bank lines. Moreover, the capital structure continued to remain strong with gearing and TD/OPBITDA of 0.2x and 0.8x, respectively, as on March 2020.

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 35% 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 54% of GTFL's revenue in FY2020. 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. Going forward, the management targets the revenue composition to reach 60-40% in favour of export sales in the near to medium term as the export business is more margin lucrative.

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 nearly 54% 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. 400 crore as on March 2020, 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 – Significant improvement in scale of operations, while maintaining current level of profitability and capital structure, 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
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GTFL. As on March 31, 2020, 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 54% of the sales (FY2020) generated from exports. The company is listed on the Bombay Stock Exchange and National Stock Exchange.

Key financial indicators (audited)

GTFL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	1017.8	953.1
PAT (Rs. crore)	125.7	140.5
OPBDIT/OI (%)	18.0%	16.9%
RoCE (%)	26.0%	22.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.6
Total Debt/OPBDIT (times)	0.6	0.8
Interest Coverage (times)	13.3	13.9
DSCR (times)	11.6	14.3

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); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/ (Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Oct 31, 2020 (Rs. crore)	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					February 05, 2021	Dec 13, 2019	Sep 25, 2018	Aug 10, 2017
1	Fund-based	Long-term	Rs.145.39	Rs. 75.77	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)
2	Non-Fund Based Facilities	Long-term/ Short-term	Rs.90.00	Rs. 52.73	[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

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 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	-	NA	-	Rs.145.39 crore	[ICRA]AA(Stable)
NA	Non-Fund Based Facilities	-	NA	-	Rs.90.00 crore	[ICRA]AA(Stable)/ [ICRA] A1+
NA	Commercial Paper	-	NA	-	Rs.15.00 crore	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
GTFL USA INC.	100.00%	Full Consolidation
Fibres Chile SpA	100.00%	Full Consolidation
Garware Environmental Services Private Limited	100.00%	Full Consolidation
Garware Meditech Private Limited	100.00%	Full Consolidation

Source: *GTFL annual report FY2019*

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

Corrigendum:

Rating rationale dated February 5, 2021 has been corrected with revisions as detailed below:

Key financial indicators (audited) table on page 4: Total Outside Liabilities / Tangible Net Worth (times) figures for FY2019 and FY2020 changed in the following manner:

1. FY2019: Changed from 0.2 times to 0.7 times
2. FY2020: Changed from 0.2 times to 0.6 times

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About ICRA Limited:

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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.

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