January 01, 2020

Guarniflon India Private Limited: Ratings reaffirmed; rated amount enhanced; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loans	3.34	0.00	-
Short-term Fund-based Pre-shipment export credit^	8.77	12.59	[ICRA]A3; Reaffirmed
Long-term Fund-based Cash Credit (Interchangeable)	0.00	(12.59)	[ICRA]BBB- Reaffirmed; Outlook revised to Negative from Stable
Total	**12.11**	**12.59**	

**Instrument details are provided in Annexure-1*

^ Sub-limits of pre-shipment export credit are as follows: Fund-based – Post Shipment Credit of Rs. 8.77 crore, which is fully interchangeable, non-fund based Letter of Credit of Rs. 5.00 crore and non-fund based Bank Guarantee of Rs. 1.25 crore

Rationale

The revision in outlook to negative factors in the persistent pressure on Guarniflon India Private Limited's (GIPL's or the company's) operating margin, arising from the unprecedented movement in raw material prices coupled with operational inefficiency – a result of the technical snag reported in the production process. Evidently, the company's operating profitability moderated to 5.13% in FY2019 and 6.11% in 7M FY2020 from 11.23% in FY2018. The ratings also remain constrained by the company's high working capital intensity of operations, a result of the elongated receivable cycle and high inventory holding levels entailing high utilisation of working capital facilities from the bank. The ratings continue to remain constrained by the vulnerability of GIPL's profitability to volatility in raw material prices and foreign exchange rates, and limited product penetration in the domestic market, resulting in high dependence on the Group entities, given that GIPL has been specifically set up to meet the Group's polytetrafluoroethylene (PTFE) product requirements.

The ratings, however, continue to draw comfort from the extensive experience of the promoter Group, the Mazza Holding Group (MHG, erstwhile known as the Guarniflon Group), in the manufacturing of PTFE products for over three decades, and also the demonstrated support from the Group in terms of technical assistance, financial support and sales offtakes. The ratings also factor in the company's comfortable capital structure, owing to its adequate net worth base supported by multiple rounds of equity infusion by its parent company in the last few years.

Key rating drivers and their description

Credit strengths

Extensive experience of promoter Group in manufacturing PTFE products - GIPL is a step-down subsidiary of Guarniflon S.P.A. (Italy), which is a family-owned Italian company formed by Mr. G. Mazza in 1982 for manufacturing PTFE products. Both are parts of the MHG, which has been primarily manufacturing various PTFE products for more than three decades in the industry. MHG is one of the leading international manufacturers of PTFE products with operations across Europe, the US and India.

Demonstrated support from the parent in terms of technical assistance, financial support and sales offtake - GIPL's parent company, Guarniflon S.P.A., has been supporting the company since its inception in 2006 in terms of setting up the plant and machinery as well as supplying raw material and technical guidance for manufacturing. The Group has periodically infused equity, unsecured loans and external commercial borrowings (ECBs) for funding GIPL's various expansion and modernisation plans, which have relatively relaxed GIPL's repayment schedules to help maintain the liquidity. In FY2017 and FY2018, the Group infused an equity share capital of ~Rs. 30.00 crore into the company and granted extended credit periods to GIPL in the initial stages of the latter's operations for procuring raw material and machinery. The Group also offtakes nearly ~75-80% of GIPL's total sales during a year.

Comfortable capital structure - With the infusion of ~Rs. 30.00 crore equity during FY2017 and FY2018, GIPL's capital structure became comfortable with gearing below 1.00 time in FY2018. It continued to remain comfortable with gearing of 0.74 time as on March 31, 2019 and 0.78 time as on October 31, 2019, because of the adequate net worth base.

Credit challenges

Persistent pressure on company's profitability margins arising from unprecedented movement in raw material prices – GIPL purchased inventory during the unprecedented price hike in a quarter, which further came back to normal level and subsequently GIPL had to sale products at lower sale price than purchase price. So, GIPL's operating profit margin (OPM) declined to 5.13% in FY2019 from 11.23% in FY2018 and its net profit margin (NPM) also remained low at 1.76% in FY2019 against 4.00% in FY2018. GIPL continued to report subdued OPM which stood at 6.11% in 7M FY2020, owing to occurrences of production inefficiencies because of technical snags in the manufacturing process. Therefore, resolving of these production inefficiencies and better raw material pricing management for improvement in profitability indicators, remains crucial from a credit perspective.

High working capital intensity of operations - GIPL's working capital intensity remained high, due to stretched receivables and elevated inventory levels, and stood at 40% in FY2019. The company's inventory levels generally remain on a higher side (115 days as on March 31, 2019), given the high lead time of around two months involved in the import of PTFE powder and the long manufacturing cycle. The receivable cycle, though improved as on financial year-end, also remains high and stood at 62 days as on March 31, 2019 with about 80% of the receivables from its Group companies, which are received as and when required by GIPL (without a fixed credit period offered for the same).

Vulnerability of profitability to volatility in raw material prices and forex rates - The PTFE prices primarily depend on the demand and supply metrics which affect the company's realisations. Given the elevated inventory levels, the company's operating profitability remains exposed to the adverse movements in the prices of PTFE powder that cannot be adequately passed on to the customers. The company derives around ~80-90% of its sales from exports, exposing it to foreign exchange risks in the absence of any firm hedging policy. However, sizeable imports, which account for ~70% of its total purchases, provide a natural hedge to an extent. In FY2019, the company's export sales stood at Rs. 94.29 crore against its import purchases of Rs. 68.69 crore.

Limited product penetration in the domestic market resulting in dependence on Group entities - GIPL was set up with the specific objective of catering to the PTFE product requirements of the promoter Group. Any decline in the demand for PTFE products at the Group level can impact GIPL's operations, given that it derives ~75-80% of its total revenues from its Group companies. Limited product penetration and acceptance in the domestic market (domestic sales contribute to ~15-20% of the total sales) further increases the risk.

Liquidity position: Adequate

The company's cash flows remained positive in FY2019 owing to increased OI and improved working capital management. As on October 31, 2019, it had a total free cash and bank balance of Rs. 6.27 crore. The cushion available in terms of undrawn working capital borrowings remains limited as reflected by 88% utilisation of its fund-based working capital limits during the 12-month period ended October 31, 2019. In addition to this, the company's debt repayments in the next three years remain quite sizeable, with Rs. 6.63 crore in FY2020, Rs. 9.48 crore in FY2021 and Rs. 6.28 crore in FY2022. However, as majority of the long-term debt repayments are to the Group company, GIPL's repayment terms may be relaxed if the need arises, which provides comfort to its liquidity.

Rating sensitivities

Positive triggers – Outlook will be revised to Stable if GIPL shows significant increase in revenues and improvement in profitability margins by achieving the operational efficiency, and improvement in working capital cycle by curtailing its receivables and inventory levels.

Negative triggers – Lower-than-expected sales, coupled with continued operational inefficiencies leading to lower-than-expected profitability or any unanticipated debt-funded capex resulting in a moderation in debt coverage indicators or any further stretch in working capital cycle will put negative pressure on GIPL's rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent/Group: Mazza Holding The ratings factor in the consistent track record of financial and operational support provided by the parent group to GIPL, as and when required
Consolidation/Standalone	Standalone

About the company

Incorporated in 2006, GIPL is a fully-owned step-down subsidiary of Guarniflon S.P.A., which is a family-owned Italian company formed by Mr. G. Mazza in 1982. Both are parts of the MHG, which primarily manufactures various PTFE products.

GIPL manufactures semi-finished PTFE extruded sheets, tapes, films, rods and tubes. Its manufacturing facility is situated at Silvassa, Dadra and Nagar Haveli with an installed production capacity of 1,500 metric tonne per annum.

In FY2019, GIPL reported a net profit of Rs. 1.94 crore on an OI of Rs. 110.31 crore compared to a net profit of Rs. 3.43 crore on an OI of Rs. 85.73 crore in the previous year. On a provisional basis, GIPL reported a profit before tax of Rs. 0.51 crore on an OI of Rs. 52.84 crore in 7M FY2020.

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	7M FY2020 (Provisional)
Operating Income (Rs. crore)	85.73	110.31	52.84
PAT (Rs. crore)	3.43	1.94	0.51*
OPBDIT/OI (%)	11.23%	5.13%	6.11%
RoCE (%)	6.50%	3.59%	2.53%
Total Outside Liabilities/Tangible Net Worth (times)	1.04	0.89	0.91
Total Debt/OPBDIT (times)	4.42	6.71	7.30
Interest Coverage (times)	8.08	3.86	3.98
DSCR	1.69	1.35	2.51

*Source: GIPL; *Profit before tax*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 01-Jan-20	Date & Rating in FY2019 03-Jan-19	Date & Rating in FY2018 27-Feb-18	Date & Rating in FY2019 14-Sep-17	Date & Rating in FY2017 02-Nov-16
1	Fund-based Cash Credit (Interchangeable)	Long Term	(12.59)	-	[ICRA]BBB- (Negative)	-	-	-	-
2	Fund-based Pre-shipment Credit	Short Term	12.59	-	[ICRA]A3	[ICRA]A3	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-based Cash Credit (Interchangeable)	NA	NA	NA	(12.59)	[ICRA]BBB- (Negative)
NA	Short-term Fund-based Pre-shipment Credit^	NA	NA	NA	12.59	[ICRA]A3

^ Sub-limits of pre-shipment export credit are as follows: Fund-based – Post Shipment Credit of Rs. 8.77 crore, which is fully interchangeable, non-fund based Letter of Credit of Rs. 5.00 crore and non-fund based Bank Guarantee of Rs. 1.25 crore
Source: GIPL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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