Grauer & Weil (India) Limited

October 08, 2018

Ratings

Facilities/ Instruments	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	65.00	**CARE AA-; Stable [Double A Minus; Outlook : Stable]**	Reaffirmed
Short-term Bank Facilities	46.00	**CARE A1+ [A One Plus]**	Reaffirmed
Total Facilities	**111.00 (Rs. One hundred eleven crore only)**		
Proposed Medium Term Fixed Deposit Programme	10.00	**CARE AA-(FD); Stable [Double A Minus (Fixed Deposit); Outlook : Stable]**	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Grauer & Weil (India) Ltd (GWIL) continue to derive strength from the company's well-established position along with vast experience of the promoters in the domestic electroplating chemical industry and partially diversified revenue profile of the company. Furthermore, the ratings also factors in GWIL's healthy financial risk profile characterized by consistent growth in revenues coupled with healthy profit margins leading to higher gross cash accruals, favorable capital structure along with strong liquidity position and debt coverage indicators in FY18 and Q1FY19 (refers to the period from April 01 to June 30)

The ratings strengths, however, are tempered by GWIL's relatively moderate scale of operations, elongated working capital cycle on account of high receivable days and profit margins susceptible to volatility in raw material prices as well as forex rates and significant capex planned as compared to its net-worth mainly towards the shopping mall division which may lead to narrowing down of liquidity cushion to an extent over the medium term.

Going forward, GWIL's ability to grow its scale of operations, while sustaining its profit margins, as well as to manage operating cycle effectively are the key rating sensitivities. Furthermore, any significant borrowing leading to deterioration in capital structure or liquidity position owing to any future capex or acquisition in medium term is the key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Well established position coupled with vast experience of the promoters in the domestic electroplating chemical industry

Incorporated in 1957, GWIL is one of the leading players in domestic electroplating industry. The company has a well-established and long track record of operations for over six decades in the metal finishing and electroplating business. GWIL sales network is spread across the country with over 100 dealers and distributors which are supported by 30 branches and depots. In the chemical division, the company sells its products in the domestic and international market largely through dealers.

GWIL is promoted by More family with Mr. Umeshkumar More, currently serving as Chairman, being associated with the company since July 17, 1969. Under his able guidance and more than five decades of experience, the company has been able to grow and expand itself into a multi-location multi-product company with five manufacturing facilities and two research centres. Further, Mr. Umeshkumar More is assisted by his son Mr. Nirajkumar More (M.D), a Bachelor of Business Administration from U.K. Besides, the company has team of well qualified professionals for heading various functional departments.

Partially diversified revenue profile

The company's revenue profile is partially diversified across different business segments such as chemicals, engineering, shopping mall, paints, and oil & lubricants. The company derives around 67% (P.Y.~69%) of its revenues from the electroplating chemical division, followed by around 18% (P.Y.~15%) from paints division (i.e. industrial paints segment) and around 15% (P.Y.~16%) of revenues in aggregate from the engineering division, shopping mall and oil and lubricant division. Thus, the diversified revenue profile has helped the company to reduce its dependency as well as tide over any downturn in a particular business segment.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Consistent growth in revenues over the past three years and Q1FY19
During FY16-FY18 period, GWIL has exhibited growth in the total operating income at a Compounded Annual Growth Rate (CAGR) of 8.68%. During FY18, the company's total operating income grew at healthy 16.52% on y-o-y basis from Rs.433.52 crore as on March 31, 2017 to Rs.505.13 crore as on March 31, 2018. The growth in revenues is largely attributed to higher sales volume as well as robust demand for its products. This has resulted in increase in gross cash accruals for the last three years. Further, In Q1FY19, the total operating income increased by 13.58% on y-o-y basis to Rs.122.89 crore as compared to Rs.108.20 crore Q1FY18.

Profit margins continue to remain healthy in FY18 and Q1FY19
GWIL's EBITDA grew by 16.17% to Rs.104.62 crore in FY18 as compared to Rs.90.05 crore in FY17 owing to robust demand of electroplating chemicals and paints along with increased shopping mall occupancy rates. The company continues to post healthy PBILDT margin at 20.71% (P.Y:20.77%), as the company exhibited better economies of scale helping the company to negate marginal decline in gross margins arising from lag in passing on rising raw material prices. During Q1FY19, the company's PBILDT margins improved from 20.93% to 24.55% on a y-o-y basis owing to increase in sales realization in the chemical and paint segment.

Favourable capital structure along with strong liquidity position
The company's capital structure continues to be favourable, improving further from 0.07x as on March 31, 2017 to 0.02x as on March 31, 2018 owing to lower reliance on debt coupled with healthy accretion of profit to reserves. Further, during FY18, interest coverage ratio stood healthy at 41.08x and total debt to GCA stood low at 0.09x respectively. In absence of any major capex during FY18 the company's liquidity position further improved with cash and bank balance further rising to Rs.119.12 crore as on March 31, 2018 as compared to Rs.76.46 crore as on March 31, 2017. Moreover, the utilization of fund based limits maintained by the company also remains low which provides additional buffer to the company to raise funds in case of any exigency.

Key Rating Weaknesses
Scale of operations continues to be moderate
With total income from operations at Rs.505.13 crore and tangible net worth of Rs.353.45 crore for the year ending March 31, 2018 GWIL is considered to be a relatively moderate-sized entity and hence going forward the company's ability to increase its scale of operations through product diversification will be crucial for the company.

Marginal improvement in the operating cycle; albeit, continues to be on higher side
GWIL's average working capital cycle improved from 92 days as on March 31, 2017 to 81 days as on March 31, 2018, largely owing to higher sales in March-2018 resulting into lower inventory levels during the month. However, GWIL's working capital cycle continues to be on higher side owing its need to extend higher credit period of around two to three months to its clients in the paint division and retention money relating to engineering division as well as the company need to maintain inventory of large basket of products across its various divisions.

Profit margins susceptible to raw material price volatility and currency fluctuations
The company's raw materials are various kinds of metals which are used in powder form in plating/coating in the case of chemical segment. However, owing to its leadership position in the segment, the company is able to pass on any rise in input cost; albeit with a time lag. Industrial paints are second largest contributor to the company's revenue. Paints have crude oil derivatives as majority of its raw materials. Hence their price is linked to crude oil price, which is volatile in nature. As pricing to supply paints are decided at the time of bidding, the segments profit margins of the company remain exposed to volatility in the input prices.
Further, as the company's operations involve import of raw material and export sales of its products for which transactions are done mostly in USD, Euro and GBP (Great Britain Pound). The company has policy of hedging majority of its imports; however, the receivables are normally kept open and hence are exposed to foreign exchange fluctuation.

Project Risk
The company has planned capacity expansion at its various plants with combined outlay of around Rs.206.56 crore over the next two years i.e. FY19 and FY20 which is significant i.e. at around 58% of its tangible net worth of Rs.353.45 crore as on March 31, 2018. The planned capex include expansion of oil storage capacity at Dadra and Vapi, paints manufacturing capacity at Dadra and Barotiwala and expansion of its existing shopping mall situated in Mumbai suburbs. The company has plans to fund the same from its internal sources. Thus, going forward, completing the projects within the timelines and as per the planned funding profile is critical from credit perspective.

Analytical approach:
Standalone financials of Grauer & Weil (India) Ltd have been considered for arriving at the ratings. The operations of GWIL's subsidiaries and associates are not significant and have minimal impact on the consolidated results.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company
GWIL, initially set up as a partnership concern in May 1940 by British nationals – Mr. Grauer and Mr. Weil, was taken over by 'More' family during 1991 subsequent to a series of changes in ownership. GWIL operates in four broad segments: chemicals, engineering, paints and shopping mall. The chemical division manufactures and sells chemicals required for metal finishing (electroplating chemicals), their intermediates and other specialty chemicals. The engineering division is involved in manufacturing and providing turnkey solution for electroplating plants, effluent treatment plants and other engineering products. The paint division (evolved from the merger of a group company Bombay Paints Limited during the year 2008-2009) manufactures industrial paints. GWIL also owns a shopping-cum entertainment mall in Kandivali East, Mumbai.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	433.52	505.13
PBILDT	90.05	104.62
PBT	73.86	87.44
PAT	55.23	60.56
Overall gearing (times)	0.07	0.02
Interest coverage (times)	35.88	41.08

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	65.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	46.00	CARE A1+
Fixed Deposit	-	-	-	10.00	CARE AA- (FD); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings: Type	Current Ratings: Amount Outstanding (Rs. crore)	Current Ratings: Rating	Rating history: Date(s) & Rating(s) assigned in 2018-2019	Rating history: Date(s) & Rating(s) assigned in 2017-2018	Rating history: Date(s) & Rating(s) assigned in 2016-2017	Rating history: Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	65.00	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Oct-17)	1)CARE AA- (14-Oct-16)	1)CARE A+ (05-Jan-16) 2)CARE A (16-Oct-15)
2.	Non-fund-based - ST-BG/LC	ST	46.00	CARE A1+	-	1)CARE A1+ (06-Oct-17)	1)CARE A1+ (14-Oct-16)	1)CARE A1+ (05-Jan-16) 2)CARE A1 (16-Oct-15)
3.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (14-Oct-16)	1)CARE A1+ (05-Jan-16) 2)CARE A1 (23-Oct-15)
4.	Fixed Deposit	LT	10.00	CARE AA- (FD); Stable	-	1)CARE AA- (FD); Stable (06-Oct-17)	1)CARE AA- (FD); Stable (20-Feb-17)	-

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