September 17, 2024

Garden Silk Mills Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Term loans	1,208.0	1,308.0	[ICRA]A+ (Stable); reaffirmed/assigned for enhanced amount
Long term/Short term – Fund-based working capital	200.0	200.0	[ICRA]A+ (Stable)/ [ICRA]A1; reaffirmed
Long term/Short term – Non-fund based limits	300.0	300.0	[ICRA]A+ (Stable)/ [ICRA]A1; reaffirmed
Long term/Short term – Unallocated limit	100.0	250.0	[ICRA]A+ (Stable)/ [ICRA]A1; reaffirmed/assigned for enhanced amount
Total	**1,808.0**	**2,058.0**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of Garden Silk Mills Private Limited (GSMPL), along with its parent, MCPI Private Limited (MCPI), while assigning the ratings, given the common management and significant operational and financial linkages between them.

The reaffirmation of the ratings factors in expectation of a considerable improvement in the consolidated financial and operating performance of MCPI and GSMPL in the current fiscal after reporting weak performance in FY2023 and FY2024. GSMPL reported an operating loss of ~Rs. 24 crore in FY2024 and Rs. ~110 crore in FY2023 because of a weak demand environment, heavy imports from China and high power and fuel cost, impacting the operating profitability.

MCPI's operating profitability also remained lower in FY2023 and FY2024 amid production-related issues in FY2023 and a significant rise in the price and reduced availability of paraxylene (Px) in FY2024. However, the Government of India imposed the quality control order (QCO) for upstream products in the polyester value chain, including PTA, from October 2023 (from July 2023 for PTA), necessitating the products to conform to the quality specifications stipulated by the Bureau of Indian Standards (BIS), leading to an improvement in the realisation of domestic PTA. This, coupled with the lower power and fuel cost and improvement in production, is likely to result in a significant improvement in MCPI's profits and cash accruals in the current fiscal. In Q1 FY2025, MCPI reported operating profits of ~Rs. 210 crore.

Further, with the imposition of QCO on partially oriented yarn (POY) and fully drawn yarn (FDY), GSMPL's gross margins (GM) on POY and FDY have improved considerably, reflected in the operating profit of ~Rs. 41 crore in Q1 FY2025 vis-à-vis the ~Rs. 21-crore operating loss in Q1 FY2024. Besides, the OPBITDA is expected to increase significantly following the commissioning of the incremental value-added yarn (FDY) capacity in February 2024, changing the product mix for the company and enabling GSMPL to command higher gross margins as FDY is a higher value-added product with a GM of ~Rs. 40 per kg vis-à-vis ~Rs. 6 per kg for chips. The consolidated entity's operating margin is expected to improve to more than 6% in FY2025 and to ~7% in the medium term, from 1.2% in FY2024.

The ratings continue to take into consideration GSMPL's established position of over four decades in the polyester yarn industry with presence across various product segments from chips to yarns and fabric, and the status of MCPI as one of the leading domestic producers of PTA, which is the key raw material for GSMPL. The consolidated profitability and cash flows are also exposed to the variation in the financial performance of MCPI, which in turn is dependent on the Px-PTA spread, which have witnessed considerable volatility in the past. While the Px-PTA spread remained low in FY2024, the same witnessed considerable improvement in the current fiscal. Also, with the acquisition of GSMPL by MCPI and the recent capacity addition in GSMPL has resulted in forward integration into the polyester value chain for MCPI, wherein ~35% of the PTA will be captively consumed. Moreover, with completion of GSMPL's capex in February 2024, increasing the share of value-added products, is expected to mitigate the consolidated entity's exposure to volatility in raw materials prices. Nonetheless, slower than expected ramping up of new capacities in GSMPL will continue to remain a rating monitorable.

ICRA notes MCPI's significant financial exposure to related entities in the TCG Group. However, the ratings also factor in the company's considerable financial flexibility for being a part of the diversified TCG Group and having a large free cash balance at the consolidated level. GSMPL has commissioned sizeable incremental capacities in the chip and yarn segment in FY2024 and therefore a timely ramp-up of the production, leading to the expected operational parameters, remains important from a credit perspective.

The Stable outlook reflects ICRA's expectations that the consolidated profits and cash flows would improve significantly, going forward, aided by an increase in the share of value-added products, an improvement in the overall operating efficiency along with favourable realisations. Improving profitability, a healthy cash balance and a conservative capital structure, despite the large capex concluded, are likely to keep the consolidated entity's credit profile comfortable

Key rating drivers and their description

Credit strengths

Expected improvement in performance of the consolidated entity in the current fiscal- GSMPL is expected to report a significant improvement in its OPBITDA from the higher spreads on account of the QCO on both PTA and POY/FDY and increased gross margins because of the change in the product mix as FDY has higher GM ~Rs. 40 per kg vis-a-vis ~Rs. 6 per kg for chips. Further, with FDY sales volume expected at more than ~1,10,000 tonnes, the company is expected to report OPBITDA of ~Rs. 150-200 crore in FY2025. MCPI's performance is expected to improve on account of a healthy improvement seen in the Px-PTA spread in the current fiscal, with the current spreads hovering around $200 per tonne. MCPI achieved an OPBITDA of ~Rs. 210 crore in Q1 FY2025, ICRA expects it to report an OPBITDA of more than ~Rs. 600 crore in FY2025. With the consolidated OPBITDA expected at ~Rs. 750-800 crore in FY2025, group's credit metrics are expected to improve significantly, going forward. While the consolidated DSCR remained lower than 1.8x in FY2024 but is expected to improve to above ~2 times with an improvement in the profitability in the medium term.

Established market position with a long track record and a well-developed distribution network – The company has been in the polyester yarn industry for more than four decades with presence across various product segments. It is a vertically integrated manufacturer of a wide range of polyester chips, polyester filament yarns, woven (grey) fabric as well as dyed and printed sarees and dress materials. It manufactures and sells synthetic fabric under the brand name Garden Vareli. GSMPL sells yarns directly to textile manufacturers and through dealers. It sells sarees and other women's readymade garments through its established network of distributors and retailers.

Strong parentage and healthy financial flexibility – GSMPL was acquired in FY2021 by MCPI, a part of The Chatterjee Group (TCG). The Group, with a strong promoter and diversified business interests, has a conservative capital structure and a large cash balance, which provides considerable financial flexibility to GSMPL and MCPI. GSMPL receives working capital related support from its parent MCPI.

Considerable operational synergies between GSMPL and its holding company, MCPI – GSMPL has presence across various product segments in the polyester yarn industry, starting from chips to yarns and fabric, while MCPI is one of the leading domestic PTA manufacturers, which is the key raw material for GSMPL. Thus, the takeover of GSMPL by MCPI has led to forward integration into the polyester value chain for MCPI, resulting in a scope for value addition at the consolidated level. Going forward, the consolidated entity's operating profile is likely to be stronger after GSMPL's ongoing capacity expansion for value-added products goes onstream.

Credit challenges

Exposure of profitability and cash flows to volatility in commodity prices – The major raw materials required by GSMPL are purified terephthalic acid (PTA) and monoethylene glycol (MEG). Both are derivatives of crude oil, prices of which remain volatile. The consolidated profitability and cash flows are also exposed to the variation in the financial performance of MCPI, which in turn is dependent on the spread between its final product, PTA, and its key raw material, Px. The spread has witnessed considerable volatility in the past.

Risks associated with scaling up of volumes and maintaining healthy capacity utilisation for the new capacities - Although the commissioning of GSMPL's FDY and chips capacities is expected to strengthen the Group's consolidated operational profile, it is exposed to stabilisation risks in the near term. Therefore, the company's ability to steadily ramp up production and ensure a healthy scale-up of operations will remain crucial for its return and coverage metrics, going forward. While the credit metrics will improve in the current fiscal, they are expected to remain modest and significant improvement in scale and better profits from newly efficient machines would be crucial to improve the profits and credit metrics going forward. However, ICRA draws comfort from the Group's demonstrated track record of successfully running its plants at healthy capacity utilisation levels over the years.

Exposure of consolidated entity to various Group companies – MCPI has sizeable investments in MCPI Global Pte Ltd, a TCG Group company. MCPI has also provided loans to other related entities. Going forward, any large additional exposure to Group companies, which might impact the overall liquidity position, would remain a credit negative.

Liquidity position: Adequate

The liquidity position is expected to remain adequate. The consolidated cash flow from operation is likely to remain healthy at above Rs. 360 crore in FY2025. The company has capex plans of Rs. 60-70 crore per annum till FY2026 to improve the operational efficiency of its plant, which is expected to be funded by debt and internal accruals in a ratio of 1:2. The consolidated annual loan repayment obligation till FY2026 would remain at Rs. 140-160 crore. The repayment of the loans contracted for the recently concluded capex would commence from FY2027, with a ballooning structure. An improving cash flow from operations, undrawn working capital limit averaging ~Rs. 120 crore for the six-month period ended July 2024 and sizeable free cash balances (~Rs. 560 crore as of March 2024, at the consolidated level) vis-à-vis the debt repayment obligation would support the consolidated liquidity position

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the consolidated profits and cash accruals improve significantly, aided by capacity expansion of the value-added products. A consolidated DSCR of more than 3.0 times on a sustained basis may result in an upgrade.

Negative factors – The ratings could be downgraded if the consolidated DSCR remains lower than 1.8 times on a sustained basis. Also, any further large debt-funded acquisition/expansion, or an incremental exposure to Group companies impacting the liquidity position or resulting in a deterioration of the capital structure will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles - Spinning
Parent/Group support	Not applicable

Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of GSMPL with its holding company, MCPI (as mentioned in Annexure II), given the common management and significant operational and financial linkages between them.

About the company

Garden Silk Mills Private Limited (erstwhile Garden Silk Mills Limited) is one of India's leading man-made fibre-based textile companies. It is a vertically integrated manufacturer of a wide range of polyester chips, polyester filament yarns (PFY), preparatory yarns, woven (grey) fabric as well as dyed and printed sarees and dress materials. It manufactures synthetic fabric under the brand, Garden Vareli. The manufacturing facilities are located at Jolwa (chips and yarn units) and Vareli (weaving unit) in the Surat district, Gujarat.

GSMPL was acquired by The Chatterjee Group (TCG), led by Dr. Purnendu Chatterjee, in FY2021. The insolvency petition against the company was admitted to the NCLT on June 24, 2020. On January 1, 2021, the NCLT approved the resolution plan submitted by MCPI Private Limited (MCPI; a part of TCG) for the acquisition of GSMPL via its 100% SPV, MCPI Polyester Pvt. Ltd., for a total consideration of Rs. 747 crore. MCPI is the holding company of GSMPL.

Key financial indicators (audited)

GSMPL	Standalone		Consolidated	
	FY2023	FY2024	FY2023	FY2024
Operating income	3,450	2,837	9,704	9,414
PAT	-198	-116	175	98
OPBDIT/OI	-3.3%	-1.0%	1.6%	2.7%
PAT/OI	-5.7%	-4.1%	1.8%	1.0%
Total outside liabilities/Tangible net worth (times)	1.0	1.6	0.8	0.9
Total debt/OPBDIT (times)	-7.0	-44.5	14.6	10.7
Interest coverage (times)	-2.9	-0.5	1.0	1.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Sep 17, 2024	Sep 5, 2023	Jul 18, 2022	Feb 17, 2022
1	Term loans	Long term	1308.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Fund based working capital	Long / short term	200.0	[ICRA]A+ (Stable) /[ICRA]A1	[ICRA]A+ (Stable) /[ICRA]A1	[ICRA]A+ (Stable) /[ICRA]A1	[ICRA]A+ (Stable) /[ICRA]A1
3	Non-fund based limits	Long / short term	300.0	[ICRA]A+ (Stable) /[ICRA]A1	[ICRA]A+ (Stable) /[ICRA]A1	[ICRA]A+ (Stable) /[ICRA]A1	[ICRA]A+ (Stable) /[ICRA]A1
4	Unallocated limit	Long / short term	250.0	[ICRA]A+ (Stable) /[ICRA]A1	[ICRA]A+ (Stable) /[ICRA]A1	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Fund-based working capital	Simple
Non-fund based limits	Very simple
Unallocated limit	Not applicable

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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	-	-	-	1,308.0	[ICRA]A+ (Stable)
NA	Fund-based working capital	-	-	-	200.0	[ICRA]A+ (Stable)/[ICRA]A1
NA	Non-fund based limits	-	-	-	300.0	[ICRA]A+ (Stable)/[ICRA]A1
NA	Unallocated limit	-	-	-	250.0	[ICRA]A+ (Stable)/[ICRA]A1

Source: Company

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure II: List of entities considered for consolidated analysis

Company Name	GSMPL's Ownership	Consolidation Approach
MCPI Private Limited*	-	Full Consolidation

*Source: Company; *Holds 100% shares of GSMPL*

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