

Ratings



Rating Rationale

January 10, 2019 | Mumbai

Gujarat Fluorochemicals Limited

Rating Action

Total Bank Loan Facilities Rated	Rs.1500 Crore
Long Term Rating	CRISIL AA/Stable
Short Term Rating	CRISIL A1+

Rs.400 Crore Commercial Paper	CRISIL A1+
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1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL's ratings on the bank facilities and commercial paper of Gujarat Fluorochemicals Limited (GFL) continue to reflect its strong market position in the chemicals, wind turbine manufacturing, and cinema exhibition businesses; healthy operating efficiency of the chemicals and cinema exhibition businesses, and a strong financial risk profile. These strengths are partially offset by exposure to regulatory changes, large working capital requirement in the wind turbine business, and inherent volatility in the chemicals and cinema exhibition businesses.

CRISIL had reaffirmed its ratings on GFL on November 23, 2018, after factoring in the announcement by GFL to demerge its chemicals business into a separate entity, GFL2, which is being incorporated. The transaction is subject to approvals from regulators and other stakeholders. All assets and liabilities of the chemicals business, including all the rated debt and bank facilities, will be transferred to GFL2. Once the demerger is complete, all rated facilities are expected to be moved to GFL2, which will have a comparable credit risk profile.

CRISIL believes GFL2 will have a healthy credit risk profile, driven by a strong business risk profile for the chemicals business; and a robust financial risk profile, once the demerger is completed. The chemicals segment is the strongest among various businesses housed under GFL and its subsidiaries. Although the cinema exhibition and wind turbine businesses have weaker business risk profiles, they help in diversifying the overall business risk profile as the chemicals business is inherently volatile.

Analytical Approach

For arriving at the ratings, CRISIL has combined the business and financial risk profiles of GFL and its subsidiaries, Inox Leisure Ltd (ILL; rated 'CRISIL AA-/Stable/CRISIL A1+'); Inox Wind Ltd (IWL; rated 'CRISIL A-/Positive/CRISIL A2+') and its subsidiaries; Inox Renewables Ltd and its subsidiaries; Inox Infrastructure Ltd (wholly owned); and other critical joint ventures and subsidiaries. The companies are collectively referred to as the GFL group. In addition to common promoters and shareholding structures, they are strategically important to GFL.

CRISIL has also assessed GFL and GFL2, assuming the completion of the demerger. Post-demerger, GFL2 will have only the chemicals business while GFL will continue to hold IWL, ILL, and other subsidiaries. CRISIL has added the debt of Inox Wind Infrastructure Services Ltd (IWISL) guaranteed by GFL, while assessing the credit risk profile of GFL2. Post-demerger, GFL and GFL2 will jointly and severally provide corporate guarantee for IWISL's debt, which is currently guaranteed by GFL.

Please refer Annexure - Details of consolidation, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths

* **Strong market position:** GFL is the largest polytetrafluoroethylene (PTFE) manufacturer in India, and among the top four globally. It is also a leading manufacturer of hydrochlorofluorocarbon (HCFC), which is used in refrigeration and air conditioning, among other industries. Through its subsidiaries, it is the second-largest player in the film exhibition business and among the leading wind turbine manufacturers in India. Robust market position along with diversified revenue streams should continue to support business risk profile.

* **Healthy operating efficiency:** Operating margin for the chemicals business improved to 26.2% in the first-half of fiscal 2019 from 18.8% in the corresponding period of the previous fiscal. The business is forward-integrated into manufacturing PTFE and backward-integrated into manufacturing HCFC, anhydrous hydrogen fluoride, chloroform, and chlorine. This reduces dependence on external sources for raw material, and helps improve operating margin and capacity utilisation. Profitability in the chemicals business is further supported by increased contribution from value-added products and speciality fluoro-polymers.

In the cinema exhibition business, revenue contribution from advertisement (ad) increased to 10% in the first-half of fiscal 2019 from 6.5% in fiscal 2014; contribution from food and beverages (F&B) rose to 26.4% from 21.3%. Driven by healthy non-box-office revenue, operating margin was 16.6% in fiscal 2018 and remained healthy at 16.7% in the first-half of fiscal 2019. High operating efficiency is likely to be sustained on the back of significant contribution from non-box-office revenue.

* **Strong financial risk profile:** Gearing was low at 0.34 time and cash and cash equivalents were healthy at Rs 686 crore, as on March 31, 2018. Substantial cash accrual is likely to continue to lead to comfortable debt protection metrics, with expected interest coverage and net cash accrual to total debt ratios of above 6 times and 0.4 time, respectively, over the medium term. The film exhibition business should generate sufficient cash flow to fund organic expansion plans, while improved cash accrual in the chemicals business would support overall credit risk profile. The financial risk profile is likely to be sustained over the medium term.

Weaknesses

* **Working capital-intensive operations in IWL:** IWL's operations had been working capital intensive under the feed-in-tariff regime. There was significant receivables build-up due to delays in commissioning or signing of power purchase agreements (PPAs). The situation was compounded by an abrupt halt on signing PPAs by distribution companies after the advent of wind auctions in February 2017. Receivables improved significantly over the 18 months ended September 2018. The company has realised a large part of its receivables and also reallocated turbines against some of the receivables to projects wherein PPAs were already in place. However, sizeable receivables remained pending for more than 180 days as on September 30, 2018. Ability to realise these receivables and rationalise working capital under the auctions regime, as the PPAs are being signed upfront, will remain key monitorables.

* **Exposure to inherent volatility in the cinema exhibition business:** Volatility in profitability inherent in the film exhibition business will continue to affect operations, though the impact will be cushioned marginally by the large scale and increasing contribution from the non-ticketing business. Given high fixed costs, multiplex players will remain dependent on occupancy, which is driven by success of films; occupancy was 27% in the half-year ended September 30, 2018, against 28% for the corresponding period of the previous fiscal, for ILL. Availability of other forms of entertainment and new properties expose ILL to challenges of sustaining profitability and growth.

Outlook: Stable

CRISIL believes business risk profile will continue to be supported by robust performance in the chemicals and cinema exhibition businesses. Strong financial risk profile is likely to be sustained, driven by significant cash accrual and healthy debt protection metrics.

Upside scenario

- * Significant improvement in operating performance for the wind turbine business coupled with reduced working capital intensity
- * Continued improvement in performance of the chemicals and cinema exhibition businesses
- * Considerable decline in debt, leading to sustained improvement in financial risk profile

Downside scenario

- * Moderation in performance of the chemicals and cinema exhibition businesses
- * Continued working capital intensity or substantial decline in market position in the wind turbine business
- * Significant capital expenditure or acquisition weakening financial risk profile

Liquidity

GFL has strong liquidity driven by expected cash accruals of more than Rs 1,000 crore per annum in FY19 and FY20 and cash and cash equivalents of Rs 686 crore as on March 31, 2018. The company has long term repayment obligations of around Rs 350 crore each in FY19 and FY20 with capex of around Rs 500 crore per annum. CRISIL believes the company has sufficient accruals and cash and cash equivalents to meet its repayment obligations and partly finance its capex requirements and investment requirements in various subsidiaries and JVs. With a gearing of 0.34 times as of March 31, 2018, GFL has sufficient gearing headroom, to raise additional debt for its capex, if required.

About the Group

GFL is the flagship company of the GFL group, which has diverse business interests including chemicals, wind turbine manufacturing, cinema exhibition, and wind power generation.

GFL is one of the largest chemical players in India with a combined installed capacity of 65,000 tonne per annum (tpa) of HCFC, 16,200 tpa of PTFE, 134,750 tpa of caustic soda, and 108,500 tpa of chloromethane. ILL operates in 67 cities and has 542 screens across 133 multiplexes. IWL has installed capacity to manufacture wind turbines equivalent to 1,600 megawatt per annum.

For the half-year ended September 30, 2018, on a consolidated basis, net profit was Rs 615 crore and operating revenue Rs 2,839 crore; against net profit of Rs 118 crore and operating revenue of Rs 1,961 crore for the corresponding period of the previous fiscal.

Key Financial Indicators

As on/for the period ended March 31	Unit	2018	2017
Revenue	Rs crore	3,611	6,233
Profit After Tax (PAT)	Rs crore	240	215
PAT Margin	%	6.6	3.4
Adjusted debt/adjusted networkth	Times	0.34	0.60
Interest coverage	Times	3.40	4.51

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Rating Assigned with Outlook
NA	Foreign Currency Term Loan^^	NA	NA	20-Mar-23	51.85	CRISIL AA/Stable
NA	Foreign Currency Term Loan^	NA	NA	15-Mar-21	46.20	CRISIL AA/Stable
NA	Foreign Currency Term Loan^	NA	NA	15-Mar-21	46.20	CRISIL AA/Stable
NA	Letter of credit & Bank Guarantee	NA	NA	NA	100.00	CRISIL A1+
NA	Letter of credit & Bank Guarantee@@\$&**	NA	NA	NA	250.00	CRISIL A1+

NA	Letter of credit & Bank Guarantee@@&	NA	NA	NA	50.00	CRISIL A1+
NA	Letter of credit & Bank Guarantee\$\$	NA	NA	NA	50.00	CRISIL A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	170.75	CRISIL AA/Stable
NA	Short Term Loan\$\$@@**	NA	NA	NA	150.00	CRISIL A1+
NA	Short Term Loan@@@**	NA	NA	NA	100.00	CRISIL A1+
NA	Short Term Loan\$\$@@@	NA	NA	NA	200.00	CRISIL A1+
NA	Short Term Loan@@@**	NA	NA	NA	50.00	CRISIL A1+
NA	Packing Credit in Foreign Currency\$	NA	NA	NA	85.00	CRISIL A1+
NA	Packing Credit in Foreign Currency\$\$@@@**	NA	NA	NA	150.00	CRISIL A1+
NA	Commercial Paper	NA	NA	7-365 days	400.00	CRISIL A1+

^^USD 7.43 million converted at 69.8350 INR/USD

^USD 6.62 million converted at 69.8350 INR/USD

@@Interchangeable with short term debt to the extent of Rs 570 crore

\$Interchangeable with letter of credit and bank guarantee to the extent of Rs 955 crore

&Interchangeable with overdraft facility to the extent of Rs 435 crore

**Interchangeable with PCFC facility to the extent of Rs 595 crore

Annexure - Details of Consolidation

Subsidiary Companies

Inox Leisure Limited
 Inox Wind Limited
 Inox Renewables Limited
 Inox Infrastructure Limited
 Gujarat Fluorochemicals Americas LLC, U.S.A.
 Gujarat Fluorochemicals GmbH, Germany
 Gujarat Fluorochemicals Singapore Pte. Limited
 Inox Renewables (Jaisalmer) Limited
 GFL GM Fluorspar SA
 Shouri Properties Private Limited
 Inox Wind Infrastructure Services Limited
 Marut Shakti Energy Limited
 Sarayu Wind Power (Kondapuram) Private Limited
 Sarayu Wind Power (Tallimadugula) Pvt. Ltd
 Vinirmaa Energy Generation Pvt. Ltd
 Satviki Energy Private Limited
 RBRK Investments Limited
 Wind One Renergy Private Limited
 Wind Three Renergy Private Limited
 Suswind Power Private Limited
 Vasuprada Renewables Private Limited
 Ripudaman Urja Private Limited
 Vibhav Energy Private Limited
 Haroda Wind Energy Private Limited
 Vigodi Wind Energy Private Limited
 Aliento Wind Energy Private Limited
 Flurry Wind Energy Private Limited
 Tempest Wind Energy Private Limited
 Vuelta Wind Energy Private Limited
 Flutter Wind Energy Private Limited
 Swanston Multiplex Cinema Private Limited

Associate Companies

Wind Two Renergy Private Limited
 Wind Four Renergy Private Limited
 Wind Five Renergy Private Limited
 Khatiyu Wind Energy Private Limited
 Ravapar Wind Energy Private Limited
 Nani Virani Wind Energy Private Limited

Annexure - Rating History for last 3 Years

Instrument	Current			2019 (History)		2018		2017		2016		Start of 2016
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	400.00	CRISIL A1+			23-11-18	CRISIL A1+	22-08-17	CRISIL A1+	22-08-16	CRISIL A1+	CRISIL A1+
						28-09-18	CRISIL A1+			13-07-16	CRISIL A1+	
						05-04-18	CRISIL A1+					
Fund-based Bank Facilities	LT/ST	1050.00	CRISIL AA/Stable/ CRISIL A1+			23-11-18	CRISIL AA/Stable/ CRISIL A1+	22-08-17	CRISIL AA/Stable/ CRISIL A1+	22-08-16	CRISIL AA/Stable/ CRISIL A1+	CRISIL AA/Stable/ CRISIL A1+
						28-09-18	CRISIL AA/Stable/ CRISIL A1+			13-07-16	CRISIL AA/Stable/ CRISIL A1+	

						05-04-18	CRISIL AA/Stable/ CRISIL A1+					
Non Fund-based Bank Facilities	LT/ST	450.00	CRISIL A1+			23-11-18	CRISIL A1+	22-08-17	CRISIL A1+	22-08-16	CRISIL A1+	CRISIL A1+
						28-09-18	CRISIL A1+			13-07-16	CRISIL A1+	
						05-04-18	CRISIL A1+					

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Foreign Currency Term Loan^^	51.85	CRISIL AA/Stable	Foreign Currency Term Loan#	56.58	CRISIL AA/Stable
Letter of credit & Bank Guarantee	100	CRISIL A1+	Letter of credit & Bank Guarantee	195	CRISIL A1+
Packing Credit in Foreign Currency\$	85	CRISIL A1+	Packing Credit in Foreign Currency~	85	CRISIL A1+
Proposed Long Term Bank Loan Facility	170.75	CRISIL AA/Stable	Proposed Long Term Bank Loan Facility	62.5	CRISIL AA/Stable
Short Term Loan&@**	150	CRISIL A1+	Short Term Loan&@**	150	CRISIL A1+
Foreign Currency Term Loan^	92.4	CRISIL AA/Stable	Foreign Currency Term Loan*	110.92	CRISIL AA/Stable
Letter of credit & Bank Guarantee @\$&**	250	CRISIL A1+	Letter of credit & Bank Guarantee@~&**	250	CRISIL A1+
Letter of credit & Bank Guarantee @@&	50	CRISIL A1+	Letter of credit & Bank Guarantee@&	50	CRISIL A1+
Letter of credit & Bank Guarantee\$&	50	CRISIL A1+	Packing Credit in Foreign Currency~&@**	150	CRISIL A1+
Packing Credit in Foreign Currency\$&@**	150	CRISIL A1+	Short Term Loan~&@**	150	CRISIL A1+
Short Term Loan&@**	100	CRISIL A1+	Short Term Loan~&	240	CRISIL A1+
Short Term Loan\$&@	200	CRISIL A1+			
Short Term Loan&@**	50	CRISIL A1+			
Total	1500	--	Total	1500	--

USD 8.25 million converted at 68.59 INR/USD

* USD 8.09 million converted at 68.59 INR/USD

^^ USD 7.43 million converted at 69.8350 INR/USD

^ USD 6.62 million converted at 69.8350 INR/USD

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