Gobind Glass and Industries Limited

December 01, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	90.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	3.60	CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable/ A Two)	Assigned
Short Term Bank Facilities	1.40	CARE A2 (A Two)	Assigned
Total Bank Facilities	**95.00 (₹ Ninety-Five Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

For arriving at the ratings of Gobind Glass and Industries Limited (GGIL), CARE has taken combined view of entities promoted by Gopal group viz. Gopal Glass Works Limited (GGWL) and GGIL (together referred as 'the group') due to their managerial, operational and financial linkages.

The ratings assigned to the bank facilities of GGIL continue to derive strength from the vast experience of its promoters with an operational track record of more than four decades in manufacturing of figured glass, state of-the art manufacturing set up with healthy capacity utilisation level and its diversified clientele. The ratings also factor notable product diversification expected in medium-term upon commencement of solar glass manufacturing facility from FY24 (refers to the period April 01 to March 31).

The ratings also take cognizance of substantial growth in scale of operations along with sustained improvement in profit margins and Gross Cash Accruals of the group during FY22 (FY refers to the period April 01 to March 31). The rating continues to factor in comfortable financial risk profile of the group underpinned by healthy debt coverage indicators and adequate liquidity.

The above rating strengths are, however, partially offset by concentrated product profile, susceptibility of profitability to volatile raw material & fuel prices and direct linkage of the demand for its products with the cyclical real estate sector. This apart, ratings also take cognizance of a implementation and scaling up risk associated with ongoing large-sized-debt-funded capex in GGIL for setting up an solar glass manufacturing facility.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Substantial increase in scale of operations while maintaining its profitability & capital structure.
- Successful implementation and scaling up of the operations of the solar glass capacity within the envisaged time and cost parameters.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Significant reduction in its TOI or reduction in its PBILDT margin below 15% on a sustained basis.
- Substantial increase in debt level due to increase in working capital intensity or undertaking debt-funded capex.
- Deterioration in unencumbered cash and bank balance (including liquid investments) to below Rs.25 crore.
- Reduction in availability of gas from Gas Authority of India Limited (GAIL) by 20% of its total allotted capacity.
- Significant delay in completion of on-going capex resulting in time and cost overrun.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters and established operational track record

The Gopal group is one of the leading manufacturers of figured glass having an established track record of operations of over four decades in the glass manufacturing. Second generation of the promoters, Mr. Mayuresh J. Shah, Managing Director of GGWL & GGIL, has industry experience of more than two decades and looks after the overall operations of the company. He is assisted by well experienced team of professionals for managing its daily operations. Over the years, the group, have

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

established itself as prominent players in the industry and together have around 50% market share in the figured glass industry.

State of the art manufacturing set up along with healthy capacity utilization
The group has a state-of-the-art manufacturing setup with the capability to manufacture glass of varied thickness, size and design. Its manufacturing lines has a total installed capacity of 128 lakh square meter (LSM) per annum (i.e. 116 lac sq. Mt/annum (Total 3 Manufacturing Lines) in GGWL and 12 lac sq. mt/annum (one manufacturing line) in GGIL as on March 31, 2022.
During FY22, the group operated with all the four lines till nine months of FY22 (with Line-1 in GGWL going for repairs in December 2021) and on a combined basis, the capacity utilisation improved and remained healthy at ~92% (PY: ~83%).

Established dealer and distribution network:
The group has a well-established dealer network of more than 300 dealers across the country and certain key dealers have been associated with the group for over two decades. Routing of sales through its dealer network provides payment security and control over receivables as compared to direct sales. While the group has a pan India presence, it holds a higher share in Western & Southern India with Gujarat, Maharashtra, Tamil Nadu, Karnataka, and Uttar Pradesh contributing approximately 87% of total sales in FY22.

Substantial growth in scale of operations and sustained improvement in profitability
During FY22, the group's TOI reported growth of 53% to Rs. 310.70 crore in FY22 (PY: Rs. 203.05 crore). The growth in TOI is on account of increase in sales volume and sales realisations by 27% and 18% in FY22 (PY: -15% and 5%) respectively.
Over the period of years, the group's operating profitability has reported significant improvement which further improved by 825 bps to 24.65% in FY22 (PY: 16.41%) on account of improvement in combined sales realisation by 18% due to change in power & fuel mix in total power cost (with low cost fuel been utilised more) and better absorption of overhead with increase in scale of operations.
Consequently, as compared to loss at PAT level in FY21, the group reported PAT margin of Rs.50.39 crore (PAT margin:16.25%) in FY22 on account of decrease in depreciation cost due to complete amortization of goodwill (for five years ended in FY21). As a result, the group reported around 85% growth in its GCA to Rs. 63.01 crore in FY22 (PY: Rs. 33.95 crore).
As per the provisional financials for 7MFY23 (refers to the period April 01 to October 31), the group reported total sale of Rs.320 crores (GGWL: Rs.291 crore and GGIL: Rs.29 crore). Further, the average monthly sale of the group also improved to Rs.45 crores as compared to Rs.32 crores for 7MFY22 (refers to the period April 01 to October 31), owing to increase in demand of the product and higher available installed capacity.

Comfortable financial risk profile:
The groups healthy net-worth base, increasing trend of GCA and adequate liquidity ensures low reliance on debt to fund capex as well as working capital requirements. Consequently, its capital structure continued to remain comfortable marked by very low gearing level of 0.02 times as on March 31, 2022 (0.00x as on March 31, 2021). The group's debt coverage indicators continued to remain healthy marked by total debt to GCA ratio of 0.31 years (PY: 0.01 years) and PBILDT interest coverage ratio of 153.46 times (PY: 118.32 times) during FY22.
However, going forward, capital structure and debt coverage indicators are expected to moderate to an extent on the back of debt availed in the current year for a large-sized capex being undertaken for setting up a solar glass manufacturing facility; which might also increase the group's reliance on external working capital borrowings. Extent of this moderation, which presently is envisaged at a reasonable level, shall remain crucial from the credit perspective.

<u>Key rating weaknesses</u>
On-going large sized debt-funded capex:
The group is setting up a facility for manufacturing of solar glass in GGIL at its existing unit. The project cost is estimated at Rs.187.67 crore and will be funded through term loan of Rs.70 crore, inter-corporate loan from GGWL of Rs. 30 crore (treated as subordinated advances till the repayment of term loan) and the balance Rs. 87.67 crore through internal accruals. The debt to equity ratio is 37: 63 times. The total installed manufacturing capacity of the plant is 48000mm/day. The project is expected to commence the operations from April 01, 2024.
Till November 21, 2022, the group has incurred cost of Rs.127 crore towards the said capex. Debt for the project has been sanctioned and partly availed (to the tune of Rs.21 crore till November 21, 2022).
While the project shall aid diversification in product profile, the project cost remains sizeable as compared to the net-worth of the group. Hence, timely completion as well as stabilization of the project facility along with saleability of the product will be crucial for ARL's growth prospects and shall remain a key rating monitorable.

Susceptibility of profitability to volatile raw material & fuel prices:
Cost of raw materials (soda ash, broken glass cullet and silica sand) consumed and fuel and power cost which constitute around 60-70% of cost of sales are driven by demand-supply dynamics. Significant increase in any of the key cost constituent may exert pressure on GGWL's profitability margins. However, due to oligopolistic nature of business and long-standing relationship its dealers, the group is able to pass on the change in input costs to its customers, albeit with some delay. The group also changes the fuel mix as per the prevailing fuel prices (LNG from GAIL, Furnace Oil or electricity) and its availability to enable optimum savings in the fuel cost.

Direct linkage of demand to cyclical real estate sector:
Demand for the group's products is directly linked to the cyclical real estate sector. While the figured glass manufactured by the group finds its application in windows, doors, partitions, etc., the wired glass has application in warehouses, industrial buildings, etc. Any sharp slowdown in the real estate sector can directly affect the group's scale of operations. However, increase in usage of glass in recent times due to its aesthetic appeal is expected to augur well for the figured glass segment in the medium term

Liquidity: Adequate
Healthy cash accruals, moderate utilisation of fund-based working capital limits, nil long-term debt repayment obligations (till FY24) and availability of free cash & bank balance underpins the group's adequate liquidity.
The average month end utilisation of its fund based working capital limits remained moderate at ~78% during the last 12 months ended October 2022. The operating cycle of the group also improved to 20 days (PY: 29 days) on account of decrease in inventory holding and collection period to 35 days and 18 days in FY22 (43 days and 26 days in FY21 respectively).
As a part of the free liquid investment was utilized to buy back equity shares, aggregating to Rs.37.20 crore in FY22 along with funding of the capex cost of solar glass manufacturing plant the free cash and bank balance (including liquid investment) reduced to Rs.52.07 crore (PY: Rs. 99.95 crore) and Rs. 15.10 crore as on October 31, 2022.
The group generated the cashflow from operations of Rs. 8.66 crore in FY22 as compared to 47.15 crore in FY21 on account of increase in capital advances for manufacturing solar glass of Rs. 33.66 crore. The net working capital to operating capital employed remains moderate at 32% in FY22 (PY: 50.43%).
Going forward, the group is envisaged to generate cash accruals of Rs.75-142 crore in the near term, which is sufficient to fund ongoing capex (as majority of the cost is incurred as on date) and for the debt repayment obligations of Rs.14 crore (starting from FY25).

Analytical approach: For arriving at the ratings of GGIL, CARE has taken a combined view on GGIL and GGWL ; together referred as Gopal group, as both the entities are in same line of business, have common promoters and management and have operational & financial linkages.

Applicable criteria
Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing
Consolidation
Policy on Withdrawal of Ratings

About the company
GGWL: Incorporated in 1978 by Mr. J. J. Shah and Late Mr. D. C. Sheth as a private limited company, GGWL is engaged in the business of manufacturing figured, rolled and wired glass sheets of varied patterns. GGWL was subsequently reconstituted as a public limited company in 1994. The Hon'ble National Company Law Tribunal (NCLT), Ahmedabad, vide its order dated August 11, 2017, approved the scheme of arrangement of amalgamation of GGWL with Gopal Mirror Coating Pvt. Ltd. (GMCPL) effective from April 1, 2016. Subsequently, as on October 5, 2017, name of the amalgamated entity, GMCPL, was changed to GGWL. As on March 31, 2022, GGWL has an installed manufacturing capacity of 116 LSM per annum at its plant located at Mehsana, Gujarat.
GGIL: GGIL was incorporated on 1st February, 1980, has been manufacturer of all kind of figured/pattern/ wired glass since the last 40 years. The Company was acquired by GGWL from BIFR in the year 2009. GGWL, sister concern of GGIL., owned and managed by Mr. Mayuri J Shah and Mr. Vikesh J Shah.

After acquisition from BIFR in 2009, the promoter of GGWL revived the Company and commenced production in 2013. As on March 31, 2022, GGIL has an installed manufacturing capacity of 12 LSM per annum at its plant located at Mehsana, Gujarat.

Combined

Brief Financials (₹ crore)	March 31, 2021 (UA)	March 31, 2022 (UA)	7MFY23 (UA)
Total operating income	203.05	310.07	320.00
PBILDT	33.31	76.44	NA
PAT	-1.73	50.39	NA
Overall gearing (times)	0.00	0.02	NA
Interest coverage (times)	118.13	153.47	NA

UA: Un-audited; NA: Not Available

GGIL

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	7MFY23 (Prov.)
Total operating income	42.83	50.30	29.00
PBILDT	2.25	11.57	NA
PAT	3.16	8.47	NA
Overall gearing (times)	0.00	0.20	NA
Interest coverage (times)	59.45	392.32	NA

A: Audited, Prov.: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	20.00	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	March 2029	70.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	3.60	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Credit Exposure Limit		-	-	-	1.40	CARE A2

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	**LT**	70.00	CARE BBB+; Stable				
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	3.60	CARE BBB+; Stable / CARE A2				
3	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB+; Stable				
4	Non-fund-based - ST-Credit Exposure Limit	ST	1.40	CARE A2				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Credit Exposure Limit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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