Haldyn Glass Limited

April 05, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	12.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	10.06	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**22.06 (Rs. Twenty-Two Crore and Six Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of Haldyn Glass Limited (HGL) continues to factor in vast experience of the promoters, long track record of the company's operations in the glass manufacturing business, long association with reputed clientele and HGL has in-house mould designing capability thereby providing flexibility in manufacturing glass bottles of different designs and sizes to cater to clients requirements. Furthermore, the ratings derive strength from the comfortable financial risk profile characterized by healthy capital structure, comfortable debt coverage indicators and adequate liquidity profile.

The above rating strengths are however tempered by modest scale of operations, high revenue dependence of HGL towards liquor sector, working capital intensive nature of operations and HGL's support towards its joint venture as well as susceptibility of the profit margins to volatility in the key input prices.

Further CARE notes that the company has recently announced its capex plans involving modernisation, rebuilding and expansion of capacities involving total outlay of around Rs.175 crore (including the periodic refurbishment of furnaces) which is to be executed in phased manner over the next 18 months. Further, as the details of the project in terms of product expansion plans, or introduction of newer products (if any) or refurbishment/modernisation details, implementation schedule of various phases, financial closure etc is yet to be finalised; hence the implications of the same on the operational functioning is not clear. CARE will continue to monitor the situation, engage with the management seeking clarity on this and will take a final view on the same once the implications of the capex on the credit risk profile is clear.

Outlook: Stable

Rating Sensitivities

Positive Sensitivities

Improvement in scale of operations to above Rs.500 crore coupled with increase in profitability margins above 18% on sustained basis.

Negative Sensitivities

- Decrease in PBILDT margin below 10% on sustained basis
- Significant deterioration in the debt coverage indicators or liquidity parameters owing to the implementation of the capex plans in the near term.

Key Rating strengths

Experienced promoters and long track record of the company's operations: HGL is promoted by its founder Mr N. D. Shetty who has more than five decades of experience in the manufacturing of glass containers. Mr N. D. Shetty (Executive Chairman) and his son Mr T. N. Shetty (Managing Director) are actively involved in the day-to-day operations of the company. Furthermore, promoters of the company are assisted by well experienced professionals for managing operations of the company. Moreover, HGL benefits from long track record of Haldyn group in manufacturing of glass containers and hence has established long-term relationship with its customers as well as suppliers.

In-house mould designing and manufacturing facility: HGL has a fully equipped mould manufacturing workshop to manufacture bottle moulds of all designs and shapes along with labelling facility. Having in-house mould designing and manufacturing capability helps the company to manufacture bottles of different sizes and shapes for its clients ranging from 1ml to 2,500 ml in volume.

Well established clientele base: Long presence in the glass manufacturing business has helped the company cultivate good relationship with the well established and reputed clients in domestic markets belonging to different sectors like liquor manufacturing, foods and non-alcoholic beverage manufacturing as well as pharmaceutical sector. Furthermore, HGL has been able to get repeat orders from some of its key clients as it has been able to establish itself as a preferred vendor for glass containers.

Stable profitability margins despite revenue decline in FY21; improvement in scale in FY22: Total operating Income of the company had declined from Rs. 232.32 crore in FY20 to Rs. 180.99 crore in FY21 which represents de-growth of around

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

28.36%. This was on account of Covid induced nationwide lockdown during Q1FY21. Reduced availability of labour force and curtailment of logistic activities also had its effect on production, supplies of raw materials as well as despatch of finished goods during the same period. Despite this, the company maintained stable operating profitability with PBILDT % marginally declining from 13.22% in FY20 to 13.10% in FY21. PAT margin however increased from 4.53% to 5.54% over the period on account of reduced in interest and depreciation cost.
In line with the improved demand scenario across various consumer segments with relaxation of lockdown measures, HGL reported revenues of Rs.160.5cr during 9MFY22 (refer to period from April 01, 2021 to December 31, 2021), with PBILDT margins of 11.9%. The slight decline in margin in FY22 is attributed to increased cost of raw materials and power. The company is in discussions with its clients for pass through of the increased inputs costs.

Financial risk profile of the company continues to be strong
Ploughing back of profits to reserves led to increase in HGL's tangible net worth from Rs. 162.90 crore as on March 31, 2021 as compared to Rs.154.96 crore as on March 31, 2020. The overall gearing remained steady at 0.04 times as on March, 2021 as compared to 0.02 times as on March 31, 2020 owing to improved tangible net worth coupled with low utilization of working capital limits. During 9MFY22, overall gearing is 0.04 times. Furthermore, owing to low debt levels, the interest costs and finance charges have remained low. As a result, the company's debt coverage indicators continue to remain healthy as seen from total debt to GCA ratio of 0.31 times and PBILDT interest coverage ratio of 31.29 times for FY21. During 9MFY22, interest coverage ratio has improved to 53.03 times due to lower interest cost. Further, the term debt of the company is expected to increase with the capex announced to be undertaken; however as full details of the same is not available, the implications of the same is not clear and therefore CARE would take a final view on the same once the implications of the same on the operations of the company is clear.

Key Rating Weakness
Sector concentration risk, although reducing: The company continues to derive majority of sales from liquor sector. High revenue dependence towards liquor sector may result in higher revenue sensitivity from change in liquor demand in the country. In FY18, company's revenue was impacted on account of change in the tax rates. Any future ban on alcoholic products in particular states may impact the company revenue. Presently, liquor sector accounts for 70% of overall revenue and balance 30% consist of FMCG, food and beverage, and cosmetics sector. The company plans to reduce liquor industry exposure to 60% over next two years. The company is also working on diversifying its revenue base by tapping exports market. The exports amounted for Rs. 20.79 crores in FY21 as compared to Rs.10.52 crores in FY20. The company caters to Africa, Nepal and Sri Lanka for exports.

Working capital intensive nature of operations: HGL provides credit period in the range of 30 days to 60 days to majority of its clients. Furthermore, the company needs to maintain inventory of about two to three months. On the other hand, the company does not enjoy significant credit period for its major suppliers. As a result, the company's operating cycle ranges between 90-120 days. The company funds its working capital requirements from internal accruals. As on March 31, 2021, the company's average collection period increased from 82 days in FY20 to 101 days in FY21. This is mainly due to COVID-19 situation. As a result, the operating cycle also marginally increased from 95 days in FY20 to 115 days in FY21.

Susceptibility of the profit margins to volatility in the key raw material prices: HGL's essential raw materials for manufacturing of glass containers are soda ash, broken glass cullet and limestone. Moreover, glass manufacturing is a power intensive process, with power cost forming around 20-25% of the total manufacturing cost. The company's bargaining power with the suppliers of raw material as well as power (electricity/natural gas) is limited. However, on the other hand, overcapacity in the glass manufacturing business limits pricing power for the players in the industry. Hence, passing on change in input cost becomes difficult and sometimes there might be significant lag in the price revisions.

Exposure to JV which is still at initial stages of operations: In order to diversify its product portfolio, HGL entered into a 50:50 JV with Heinz Glass International GmbH of Germany, named as "Haldyn Heinz Fine Glass Private Limited (HHFPL)". HHFGL started its operations in October 2017 and reported revenue of Rs.83.56 crore and PAT of Rs.4.55 crore in FY20. As on March 31, 2021, the company has invested Rs.31.75 crore in the form of equity. The company does not envisage any major fund infusion in JV over medium term. The company is engaged in manufacturing premium glass containers used in cosmetic and perfumes industry. The company caters to clients based in Europe and USA. For the optimum utilization of furnace the company plans to set up additional bottling line in HHFPL. The said capex is expected to happen with an outlay of Rs.30 crore. The company plans to fund 80% of the said capex through bank borrowings and balance from internal accruals. In case banks require promoters to infuse funds, HGL might have to infuse equity capital amounting Rs.7.5 crore. HGL has free cash and cash equivalents of Rs.31.53 crore as on December, 2021.

Liquidity: Adequate
Adequate liquidity is characterized by sufficient cushion in accruals vis-à-vis repayment obligations and healthy cash and bank balance of Rs.37.71 crore as on March 31, 2021. The current ratio and quick ratio stood at 3.41 times and 2.52 times respectively as on March 31, 2021. The cash flow from operating activities stood positive during FY21.

Analytical approach: Standalone.

Applicable criteria:
[Criteria on assigning Outlook and Credit Watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial ratios – Non-Financial Sector]
[Criteria for Short Term Instruments]
[Liquidity Analysis of Non-financial Sector Entities]
[Rating Methodology-Manufacturing Companies]

About the Company
Incorporated in 1991, Haldyn Glass limited (formerly known as Haldyn Glass Gujarat Limited) is involved in manufacturing and marketing of glass bottles and containers. HGL is promoted by Haldyn Corporation limited which holds 53.64% in HGL as on December 31, 2020. Mr N. D. Shetty, Executive chairman of the company, has an experience of more than five decades in the glass manufacturing segment. HGL's manufacturing plant is located at Vadodara, Gujarat, and currently has a total melting capacity of 360 tons per day comprising of two Glass Melting Furnaces (200 + 160 tons per day capacity) and 8 I.S. machines for manufacturing a very wide range of containers from 1 ml to 2500 ml. The I.S. machines are capable of producing about 1.5 million high quality containers every day. Glass containers manufactured by HGL are supplied to liquor, cosmetic as well as food and beverages industry with the company deriving majority of its revenues from liquor industry. Earlier during FY16 (refers to the period April 1 to March 31), in order to diversify its product portfolio, HGL entered into a 50:50 JV with Heinz Glass International GmbH of Germany, named as Haldyn Heinz Fine Glass Private Limited (HHFPL). As on March 31, 2020, HGL had 50% shareholding in the JV with total equity exposure amounting to Rs.31.75 crore. HHFPL is engaged in manufacturing of glass bottles used for perfumes and cosmetics. The company caters to clients based in Europe and USA.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22(UA)
Total operating income	232.32	180.99	160.6
PBILDT	30.70	23.70	19.09
PAT	10.52	10.03	9.41
Overall gearing (times)	0.02	0.04	0.04
Interest coverage (times)	31.01	31.29	53.03

A: Audited , UA- Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	12.00	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	10.06	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	12.00	CARE A-; Stable	-	1)CARE A-; Stable (30-Mar-21)	1)CARE A-; Stable (24-Mar-20)	1)CARE A-; Stable (07-Mar-19)
2	Non-fund-based - ST-BG/LC	ST	10.06	CARE A2	-	1)CARE A2 (30-Mar-21)	1)CARE A2 (24-Mar-20)	1)CARE A2 (07-Mar-19)
3	Non-fund-based - ST-Forward Contract	ST	-	-	-	1)Withdrawn (30-Mar-21)	1)CARE A2 (24-Mar-20)	1)CARE A2 (07-Mar-19)

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. Bank's Consent	The company shall not divert working capital funds for long term purposes without obtaining prior written consent from bank.
	Company to route at 100% of receivable through bank.
B. Non financial covenants	
I. Expansion/ Merger/ diversification	Details of any scheme of expansion/ modernisation/diversification etc. or acquire any fixed assets to be share with bank.

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	Non-fund-based - ST-BG/LC	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 instrument: *CARE 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 CARE Ratings:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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