

Hindustan Adhesives Limited

November 08, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	72.55	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Short Term Bank Facilities	2.45	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Bank Facilities	75.00 (Rs. Seventy-Five Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Hindustan Adhesives Limited (HAL) factors in consistent improvement in operational performance marked by notable growth in exports along with improved profitability as a result of better economies of scale, improved financial risk profile along with adequate liquidity position. The rating also drives strength from the experienced promoters along with company's long operational track record and its long-standing relationship with reputed clients. The ratings are however constrained by presence of large organized and unorganized players in the packaging market along with high fluctuations in the price of raw material.

Rating Sensitivities

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

- Growth in scale of operations beyond Rs 400 crore along with improvement in ROCE above 20% on a sustained basis.
- Improvement in overall gearing below 1.25x on a sustained basis.

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

- Decline in scale of operations beyond Rs 200 crore with deterioration in PBILDT margin below 10% on sustained basis.
- Deterioration in capital structure with TDGCA above 4.50x on sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Improved operational performance and profitability: The total operating income of company increased by ~38% in FY21 (refers to period from April 01 to March 31) to Rs 220.23 crore as compared to Rs 158.57 crore in FY20, supported by the growth in exports, which increased by ~68% to Rs 157.84 crore (71.67% of total operating income) in FY21 from Rs 94.07 crore (62% of total operating income) in FY20. The consistent increase in the export business is aided by the commissioning of new plant in Mundra, Gujarat in FY19 and further capacity expansion of self-adhesives tapes in FY20, the company has been able to add new overseas clients to its portfolio which fetch better yield as compared with domestic clients. However, domestic revenue of company has declined by 5.88% in FY21 to Rs 54.67 crore in FY21 from Rs 58.09 crore in FY20. The PBILDT margin of the company improved to 12.71% in FY21 from 11.27% in FY20 on account of higher sales realization mainly driven by increase in export sales which also led to increase in its PAT margin to 3.92% in FY21 from 3.35% in FY20. During Q1FY22 (refers to period from April 01 to June 30), company reported total operating income of Rs 85.02 crore with PAT of Rs 2.97 crore as compared operating income of Rs 45.19 crore and PAT of Rs 2.68 crore.

Experienced promoters: HAL was established and promoted by Mr. Laliit kumar Bagla in 1988 for manufacturing of Bi-Axially Oriented Polypropylene (BOPP), Self-Adhesive Tapes and Polyolefin Shrink Films. The company is currently managed by Mr. Madhusudan Bagla, having more than 30 years of experience in the packaging industry. The management of the company is supported by qualified and experienced personnel. Promoters hold 68.48% shares in HAL as on September 30 2021.

Long standing relationship with reputed clients: HAL provides packaging solution to various reputed clients which have been associated with the company from last 10-15 years which includes Parle Agro Limited, Britannia Industries Limited, Nestle India Limited, ITC Limited to name a few. Apart from repeat orders from existing clientele, the company has been able to add few overseas clients to its portfolio which includes Power pack LLC (a distributor based out of USA), Atlantic Caribbean, and BDG Wrap TITE among others.

Completion of new unit at Gujarat for adhesive tape manufacturing: The company has set up a new unit in FY19 at Mundra (Gujarat) near Special Economic Zone (SEZ) for manufacturing of Self Adhesives Tapes with a total capacity of 27.20 million square meters. As the company witnessed growth in exports during FY19 and FY20 from its key clients and sustained demand, management further undertook expansion project in FY20. The augmentation of Self-Adhesive tape capacity was

expanded from 27.20 square meter (sq. mt.) as on June 30, 2020 to 42.00 sq. mt. at a total cost of Rs.30 crore funded through term loan of Rs.22 crore and balance through unsecured loans/ internal accruals. The project was commissioned in Q3FY21. HAL has also setup one marketing unit in US with branches in various parts of Europe under name Bagla Films LLC to cater to foreign units of its Indian customers.

Key Rating Weaknesses

Raw material price fluctuation risk: The basic raw material for the company is BOPP and granules which are derivatives of crude oil and any fluctuation in its prices directly impacts the profitability of the company. HAL's gross margin as compared to total sales for the company has reduced significantly over the last 3 years from about 42% in FY18 to about 33% in FY21 and remains exposed to raw material price fluctuation. Even though gross margin has been declining, the company was able to maintain its PBILDT margin mainly on account of reduction in its fixed overheads, including power and fuel cost, employee cost and selling expenses which cumulatively reduced from 18% of total operating income (TOI) in FY20 to 15% of TOI in FY21.

Moderate financial profile: The overall debt of company has increased to Rs 83.63 crore as on March 31, 2021 from Rs 70.24 crore as on March 31, 2020 on account of covid term loan sanctioned by the banks along with increase in working capital borrowings in order to support the increased scale of operations. As a result of increased debt, the overall gearing of the company remains high at 1.93x as on March 31, 2021, though improved from 2.20x previous year on account of increased profitability and scale of operations. The debt coverage indicators have also improved with interest coverage of 4.62x for FY21 (PY: 3.31x) and TDGCA stood high at 4.30x as on March 31, 2021 though improved from 6.18x as on March 31, 2020. Total Debt/ cash flow from operations stood at 11.51x as on March 31, 2021 (PY: 6.89x).

Competitive nature of Industry: Technological advancements have led to increasing demand for lightweight packing materials in the recent past because almost every product packed in retail saleable pack is further packed in corrugated boxes for transportation. These boxes are then sealed by carton sealing tapes, technically called BOPP Self Adhesive tapes. The growing end-use industries such as FMCG, automotive and electronics have led to rapid increase in demand for adhesive tapes over the past few years. Increasing consumer awareness pertaining to hygiene coupled with increasing disposable income has led to rapid increase in demand for adhesive tapes in healthcare sector, thus driving the adhesive tapes market. With the presence of large number of players in the BOPP tape market unorganized sector, it poses a serious competition to HAL's future revenue visibility. The company has ventured into exports with growing contribution in overall revenue mix to diffuse geographical concentration and geo-political risks to a certain extent.

Liquidity: Adequate, Liquidity of company remains adequate with cash accruals of Rs 32.67 crore in FY22 against Rs 11.13 crore of Scheduled debt repayment in FY22. The operating cycle remains moderate at around 59 days for FY21 and current ratio of 1.15x as on March 31, 2021 which has remained unchanged mostly on account of high current portion of debt repayment obligation and internal accruals being utilized towards capex. The company has cash and bank balance of Rs 3.88 crore as on March 31, 2021. There is no capex envisaged in medium to long term as per management. The average working capital utilization remains about 90% for the trailing twelve months ending Sep 2021.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios – Non-Financial Sector](#)

[CARE's criteria for short term instruments](#)

[Rating Methodology – Manufacturing companies](#)

[Rating Methodology – Liquidity Analysis of non-financial sector entities](#)

About the Company

Hindustan Adhesive Limited (HAL) is a part of Bagla Group. The company was incorporated in 1988 and promoted by Mr. Lalit Kumar Bagla and his son Mr. Madhusudan Bagla for the manufacturing of Bi-Axially Oriented Polypropylene (BOPP), Self-Adhesive Tapes and Polyolefin Shrink Films (POF Films). The company commissioned its first manufacturing plant in Uttar Pradesh in October, 1989 with an installed capacity of 10 million sq. meters. Currently, the company has three manufacturing units; one in Uttar Pradesh (Ghaziabad), one in Uttarakhand (Roorkee) and one in Gujarat (Mundra) with a total installed capacity of 42.00 million square meter as on Sep 30, 2021. Apart from HAL, the group has another company Bagla Polifilms Limited (BPL – rated CARE BB+, Stable / CARE A4+) which started its operations in 1988. Currently, the company has three manufacturing units; one in Uttar Pradesh (Ghaziabad), one in Uttarakhand (Roorkee) and one in Gujarat (Mundra).

Brief Financials

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	Q1FY22 (Prov.)
Total operating income	158.57	220.23	85.02
PBILDT	17.88	28.00	8.53
PAT	5.31	8.65	2.97
Overall gearing (times)	2.20	1.93	-
Interest coverage (times)	3.31	4.62	4.53

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure2

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

Annexure 1: Details of Instrument/ 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
Term Loan-Long Term		-	-	March 2027	44.25	CARE BBB; Stable
Fund-based - LT-External Commercial Borrowings		-	-	March 2024	5.50	CARE BBB; Stable
Fund-based - LT-Cash Credit		-	-	-	22.80	CARE BBB; Stable
Non-fund-based - ST-BG/LC		-	-	-	1.12	CARE A3+
Fund-based/Non-fund-based-Short Term		-	-	-	1.33	CARE A3+

Annexure 2: Rating history of past 3 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	Term Loan-Long Term	LT	44.25	CARE BBB; Stable	-	1)CARE BBB-; Stable (29-Sep-20)	1)CARE BBB-; Positive (13-Sep-19)	-
2	Fund-based - LT-External Commercial Borrowings	LT	5.50	CARE BBB; Stable	-	1)CARE BBB-; Stable (29-Sep-20)	1)CARE BBB-; Positive (13-Sep-19)	-
3	Fund-based - LT-Cash Credit	LT	22.80	CARE BBB; Stable	-	1)CARE BBB-; Stable (29-Sep-20)	1)CARE BBB-; Positive (13-Sep-19)	-
4	Non-fund-based - ST-BG/LC	ST	1.12	CARE A3+	-	1)CARE A3 (29-Sep-20)	1)CARE A3 (13-Sep-19)	-
5	Fund-based/Non-fund-based-Short Term	ST	1.33	CARE A3+	-	1)CARE A3 (29-Sep-20)	1)CARE A3 (13-Sep-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / 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-External Commercial Borrowings	Simple
3	Fund-based/Non-fund-based-Short Term	Simple
4	Non-fund-based - ST-BG/LC	Simple
5	Term Loan-Long Term	Simple

Annexure 5: Banker Lender Details

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. 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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