

Haldyn Glass Limited

February 13, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	90.00	CARE A-; Negative	Assigned
Long Term Bank Facilities	37.00 (Enhanced from 12.00)	CARE A-; Negative	Reaffirmed
Short Term Bank Facilities	14.00 (Enhanced from 10.06)	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of rating 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 its in-house mould designing capability which provides it flexibility in manufacturing glass bottles of different designs and sizes to cater to a wide range of client 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 HGL's modest scale of operations, revenue concentration from liquor segment, project execution risks, susceptibility of profitability to volatile input prices, working capital intensive nature of operations and HGL's support towards its joint venture.

Outlook: Negative The revision in the outlook from "Stable" to "Negative" reflects expected moderation in the credit risk profile of the company temporarily owing to significant project implementation risk emanating from the large size of its ongoing capex programme vis-à-vis the net-worth of the company. Additionally, the project entails large proportion of debt funding which will cause the capital structure to be moderately leveraged, compared with negligible debt levels as on 31st March 2022. It will also result in moderation in debt coverage indicators in FY23 and FY24. The revision in outlook also takes into account the depleted level of liquidity owing to the project implementation. Successful completion of the capex on timely basis without cost overruns, leading to scaling up of cash flows as per schedule can result in the outlook being revised back to "Stable". While on the other hand delay in project implementation or cost overruns entailing additional debt drawdowns leading to weakening of the capital structure more than anticipated can lead to a downgrade.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations to above Rs.500 crore coupled with increase in profitability margins above 16% on sustained basis.

Negative factors

- Any delay in the implementation of the on-going debt-funded capex program leading to significant cost overrun and resulting in deterioration of the solvency position and/or liquidity.
- Significant underachievement of revenues or profitability margins as compared to envisaged levels.
- Additional sizeable investments in the JV putting pressure on the liquidity further

Analytical approach: Standalone

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. Besides, Mr. Niraj Tipre, CEO, is a Post graduate in Management and Bachelor of Science Graduate. He possesses rich

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

exposure in global operations management, acquisition integration, turnaround management, strategy development. 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. Lately the company has been focussed on increasing its presence in the FMCG and perfumery segments where margins are higher than in the liquor segment.

Recovery in scale of operations in FY22 and healthy profit margin: During FY22, the operations of HGL remained stable and it reported total operating income (TOI) Rs. 213.78 crores as compared to Rs.178.32 crore in FY21. There has been increase in sales by 19.88% in FY22 with normalisation of situation post Covid. Further, during H1FY23, HGL has reported TOI of Rs. 160.58 crores (vis-à-vis Rs. 99.52 crore in H1FY22), representing healthy jump in revenues owing to increase in prices of goods sold backed by increase in raw material prices like soda ash, gas etc. coupled with increase in demand for goods from end customers.

HGL's profitability margins move in line with the fluctuations in raw material (major being soda ash) and fuel prices. The essential raw materials for manufacturing of glass containers are soda ash, broken glass cullet and limestone. The prices of raw material such as soda ash, sodium sulphate and cullet displayed an increase post Q2FY22. Additionally, the Russia-Ukraine war caused a further spike in input prices (especially natural gas) from Q4FY22, which impacted profitability. Hence the PBILDT margins declined from 11.79% in FY21 to 8.14% in FY22. However, the increase in input cost during FY22 was passed on to customers in a phase-wise manner with a lag of around two quarters, which resulted in recovery of PBILDT margins to around 11.23% in H1FY23. PAT margins also displayed a similar trend, declining to 5.08% in FY22 from 5.62% in FY21, before improving to around 6.11% levels in H1FY23. CARE Ratings expects the improvement in profitability margins to be sustained going forward given the new products segments that the company is entering into.

Financial risk profile of the company continues to be satisfactory: 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 to Rs.171.22 crore as on March 31, 2022. HGL's overall gearing currently stands comfortable at 0.07x as at FY22. It is however expected to weaken to 0.55x-0.63x levels in next three years owing to large on-going capex plan of Rs.150cr which is envisaged to be funded by debt of around Rs.90cr. For similar reasons, the debt coverage metrics such as TD/GCA (total debt to gross cash accruals) which was 0.74x as at year end FY22 is expected to weaken to over 4x in FY23 and FY24. Its PBILDT interest cover, which was 22.94x in FY22 is likely to decline to ~11x in FY23, further weakening to ~5x in FY24. CARE Ratings however believes that the weakening in credit ratios is transient, and that they will display steady improvement from FY25 given the incremental cash flows from the augmented capacity as well as from higher margin products.

Key Rating Weakness

Sector concentration risk, albeit improving: 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. Presently liquor sector accounts for 70% of overall revenue and balance 30% consist of FMCG, food and beverage, and cosmetics sector. With implementation of the on-going capex the company will be able to mitigate risk of dependency on a single segment and diversify into few other segments.

The company is also working on diversifying its revenue base by tapping exports market. Exports have displayed a steady increase to Rs. 29.52 crore in FY22 from Rs. 20.79 crores in FY21 and Rs.10.52 crores in FY20. The company presently caters to markets such as Africa, Nepal and Sri Lanka.

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 raw materials and finished goods 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.

During FY22, the operating cycle remained steady at around 102 days. The debtor days stood at 85 days as on 31 March 2022

as compared to 102 days in the previous year indicating the debtor position has improved in FY22. Further, inventory days continues to remained stable at 56 days while creditor days remained steady at 38 days as on 31 March 2022.

Project execution risks: HGL is currently implementing a large capex plan at its factory located in Vadodara. It is upgrading one of its furnaces to produce premium glass containers for segments like premium liquor, food, candle jars, cosmetics and perfumes. The capex program also involves modernisation of one of the existing furnaces, expanding its capacity by 95 tonnes per day (TPD) to benefit from economies of scale and also to be able to offer customised products for domestic and developed export markets. The total cost of the project is estimated at Rs 150 crore. The same is proposed to be funded by a mix of term loan of Rs 90 crore and remaining from internal accruals. The company has already incurred Rs.35.62 crores from internal accruals on the project towards purchase of machinery. The project is expected to get completed by end of September 2023. In CARE Ratings' assessment, the project risks are significant given the large quantum of borrowings and also considering that total investment is around 88% of the networth (as at end FY22). Going forward, timely execution of the project is crucial from credit perspective and any change in the size of capex or funding pattern having an adverse impact on the solvency, debt coverage indicators or liquidity is a key rating sensitivity.

Susceptibility of the profit margins to volatility in the key raw material prices: With glass manufacturing being an energy-intensive process, the company's profitability is highly susceptible to volatility in fuel prices. Additionally, soda ash, broken glass cullet and limestone and dolomite account for 70% of the total raw material costs. Given the long association with its clients, HGL is able to pass on the change in input costs to them. However, as the pass through happens with a lag, the margins are exposed to volatility in input prices. HGL also changes the fuel mix as per the prevailing fuel prices (Furnace Oil or Natural Gas) and its availability to enable optimum savings in the fuel cost.

Exposure to JV: 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.131.05 crore and PAT of Rs.1.68 crore in FY22. As on March 31, 2022, the company has invested Rs.41.75 crore in the form of equity. The company does not envisage any major fund infusion in JV in near term. The company is engaged in manufacturing premium glass containers used in cosmetic and perfumes industry.

Liquidity: Adequate

The healthy cash accruals, moderate utilisation of fund-based working capital limits, nil long-term debt repayment obligations currently and healthy free cash & bank balance represents HGL's adequate liquidity. The maximum utilisation of its fund based working capital limits remained moderate at ~60% during the last twelve months ended December 2022. HGL's operating cycle continues to remained steady at 102 days (PY: 115 days) during FY22 with improvement in collection period. HGL had a free cash and bank balance of Rs.19.66 crore as September 2022 which provides some cushion in case of any exigencies. The project term loans are being disbursed from December 2022 onwards, with moratorium period of 12-18 months. As the project is expected to become operational by September 2023, the incremental cash flows from the same are expected to support debt servicing, due to which CARE Ratings expects liquidity to continue to remain adequate over the next 3 years.

Applicable criteria:

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[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 glass based containers. HGL is promoted by Haldyn Corporation limited (parent company) 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 350 tons per day comprising of two Glass Melting Furnaces (190 + 160 tons per day capacity) and 8 I.S. machines having 4 lines of machine for each of the furnace needed 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, 2022, HGL had 56.80% shareholding in the JV with total equity exposure amounting to Rs.41.75 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23(UA)
Total operating income	178.32	213.78	160.58
PBILDT	21.03	17.41	18.04
PAT	10.03	10.87	9.81
Overall gearing (times)	0.04	0.07	0.06
Interest coverage (times)	27.76	22.94	53.06

A: Audited, UA- Unaudited, NA- Not available

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

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

Lender details: Annexure-5

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	37.00	CARE A-; Negative
Fund-based - LT-Term Loan		-	-	November 2030	90.00	CARE A-; Negative
Non-fund-based - ST-BG/LC		-	-	-	14.00	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 (₹ 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-Cash Credit	LT	37.00	CARE A-; Negative	1)CARE A-; Negative (07-Oct-22)	-	1)CARE A-; Stable (30-Mar-21)	1)CARE A-; Stable (24-Mar-20)

					2)CARE A-; Stable (05-Apr- 22)			
2	Non-fund-based - ST-BG/LC	ST	14.00	CARE A2	1)CARE A2 (07-Oct- 22) 2)CARE A2 (05-Apr- 22)	-	1)CARE A2 (30-Mar-21)	1)CARE A2 (24-Mar- 20)
3	Non-fund-based - ST-Forward Contract	ST	-	-	-	-	1)Withdrawn (30-Mar-21)	1)CARE A2 (24-Mar- 20)
4	Fund-based - LT- Term Loan	LT	90.00	CARE A-; Negative				

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

Y	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	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.

Contact us**Media Contact**

Name: Mradul Mishra

Phone: +91-22-6754 3573

E-mail: mradul.mishra@careedge.in**Analyst Contact**

Name: Vikash Agarwal

Phone: +91-22-67543408

E-mail: vikash.agarwal@careedge.in**Relationship Contact**

Name: Saikat Roy

Phone: 022-67543404/136

E-mail: saikat.roy@careedge.in**About us:**

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