

Hindustan Adhesives Limited

December 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	61.21 (Reduced from 81.44)	CARE BBB; Stable	Reaffirmed
Short Term Bank Facilities	15.79 (Reduced from 30.50)	CARE A3+	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Hindustan Adhesive limited (HAL) continues to drive strength from financial risk profile marked by improved overall gearing and steady operational cash flows utilized for prepayment of debt during FY23 (refers to the period from April 1, 2022, to March 31, 2023). The rating also derive comfort from the experienced promoters, company's long operational track record and its long-standing relationship with reputed clients in export market. The ratings are however constrained by declining scale of operations, low profitability margins in FY23 as a result of slowdown in export markets, however some recovery witnessed during H1FY24 (refers to the period from April 1, 2023, to September 30, 2023) with improved operating margin, presence of large organized and unorganized players in the packaging segment along with high fluctuations in the price of raw material.

CARE has withdrawn the rating assigned to the long-term bank facilities (Term loan) of HAL with immediate effect, as the company has repaid the aforementioned term loan in full and there is no amount outstanding under the said term loan.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations beyond Rs.400.00 crore and improvement in ROCE above 20% on a sustained basis.
- Improvement in overall gearing below 1.25x on a sustained basis.

Negative factors

- Decline in scale of operations beyond Rs.200.00 cr with deterioration in PBILDT margin below 10% on sustained basis.
- Deterioration in capital structure with TDGCA above 3.50x on sustained basis.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the entity shall sustain its growth in operational performance over the medium term on back of experienced promoters, long operational track record along with long-standing relationship with reputed clients.

Detailed description of the key rating drivers:

Key strengths

Improved overall gearing: The overall gearing of the company improved to 1.15x as on March 31, 2023 (PY: 1.65x) as a result of debt prepayment during FY23 from the steady cash accruals which has also resulted in lower interest outgo during the last fiscal. Though, debt coverage indicators stood moderate with interest coverage of 3.44x for FY23 (PY 4.344x), TDGCA at 4.60x as on March 31, 2023 (PY: 3.85x) on account of lower profitability margins however, company has adequate liquidity reflected in steady cash flow from operations demonstrated in last few fiscals.

Further, the company has witnessed some recovery during H1FY24 (refers to the period from April 01 to Sep 30, 2023) with overall gearing further improving to 0.89x as on September 30, 2023.

Experienced promoters: The company was established and promoted by Mr. Lalit 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 (son of Mr. Lalit Kumar Bagla), having experience of more than 30 years 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 March 31, 2023.

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

Long standing relationship with reputed clients: The company provides the packaging solution to various reputed clients which have been associated with the company from last 10-15 years, includes ITC Limited, Dabur India Limited, Nestle India Limited, Parle Agro Limited, Britannia Industries Limited, Asian Paints Ltd and many more. Apart from repeat orders from existing client, commencement of new plant at Mundra, Gujarat support the growth in the revenue through export sales. Further, the company has been able to add few overseas clients to its portfolio which includes Power pack LLC (a distributor based out of USA), Commercial FAMA S.A. (Spain).

Key weaknesses

Modest operational performance due to slowdown: During FY23 the scale of operations of the company has declined by ~28.30% and stood at Rs.324.79 cr (PY: Rs.453.01 cr) on account of global slowdown which impacted the demand emanating from its export destinations and volatility in raw material (granules) prices. However, the company has witnessed some recovery during H1FY24 (refers to the period from April 01 to Sep 30, 2023) with company's total operating income stood at Rs.162.21 cr, which is expected to improve further in H2FY24 with uptick in demand.

The PBILDT margin of the company stood at 7.20% in FY23 (PY: 8.18%) and PAT margin declined to 1.50% in FY23 (PY: 2.55%) marked by the company's limited bargaining power and inability to completely pass on the rise in input prices to end consumers led to decline in. During H1FY24 company has reported PBILDT margin of 10.75% and PAT margin of 4.99% driven by the recovery in raw material price.

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 remains similar in last 5 years fiscals about 31.18% in FY19 to about 31.47% in FY23 except 24.41% in FY22 on account of partially passing of the increased input cost.

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. With the presence of large number of unorganized players in the BOPP tape market, 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 expected cash accruals of Rs.21.11 cr in FY24 against scheduled debt repayment of Rs.16.07 in FY24 due to lower finance cost on account of repayment of term loan in FY23. The company has cash and bank balance of Rs.0.47 cr as on March 31, 2023. There is no capex envisaged in medium term as per management. The average working capital utilization remains ~85% for the trailing twelve months ending Oct 2023.

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](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Commodity Chemicals

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). Apart from HAL, the group has another company Bagla Polifilms Limited (BPL – rated CARE BB+; Stable / CARE A4+) which started its operations in 1988.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	453.01	324.79	162.21
PBILDT	37.03	23.39	17.43
PAT	11.56	4.88	8.10
Overall gearing (times)	1.62	1.15	0.82
Interest coverage (times)	4.44	3.44	-

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: India Ratings has conducted the review on the basis of best available information and has classified Hindustan Adhesives Limited as "Not cooperative" vide its press release date May 15, 2023.

Any other information: Not Applicable

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

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

Complexity level of various instruments rated: 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		-	-	-	42.80	CARE BBB; Stable
Fund-based - LT-External Commercial Borrowings		-	-	Oct 2021	0.00	Withdrawn
Fund-based/Non-fund-based-Short Term		-	-	-	6.29	CARE A3+
Non-fund-based - ST-BG/LC		-	-	-	9.50	CARE A3+
Term Loan-Long Term		-	-	30 July 2025	18.41	CARE BBB; Stable

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 2023-2024	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
1	Term Loan-Long Term	LT	18.41	CARE BBB; Stable	-	1)CARE BBB; Stable (30-Nov-22)	1)CARE BBB; Stable (23-Nov-21) 2)CARE BBB; Stable (08-Nov-21)	1)CARE BBB-; Stable (29-Sep-20)
2	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	1)CARE BBB; Stable	1)CARE BBB; Stable (23-Nov-21)	1)CARE BBB-; Stable

						(30-Nov-22)	2)CARE BBB; Stable (08-Nov-21)	(29-Sep-20)
3	Fund-based - LT-Cash Credit	LT	42.80	CARE BBB; Stable	-	1)CARE BBB; Stable (30-Nov-22)	1)CARE BBB; Stable (23-Nov-21) 2)CARE BBB; Stable (08-Nov-21)	1)CARE BBB-; Stable (29-Sep-20)
4	Non-fund-based - ST-BG/LC	ST	9.50	CARE A3+	-	1)CARE A3+ (30-Nov-22)	1)CARE A3+ (23-Nov-21) 2)CARE A3+ (08-Nov-21)	1)CARE A3 (29-Sep-20)
5	Fund-based/Non-fund-based-Short Term	ST	6.29	CARE A3+	-	1)CARE A3+ (30-Nov-22)	1)CARE A3+ (23-Nov-21) 2)CARE A3+ (08-Nov-21)	1)CARE A3 (29-Sep-20)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the 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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