Haldyn Glass Limited

April 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	185.67 (Reduced from 189.67)	CARE A-; Negative	Reaffirmed
Short Term Bank Facilities	4.00	CARE A2	Assigned
Short Term Bank Facilities	14.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Haldyn Glass Limited (HGL) continues to factor in the promoters' vast experience, the company's long track record of operations in the glass manufacturing business, and long association with reputed clientele. Ratings also consider HGL's in-house mould designing capability, providing it flexibility in manufacturing glass bottles of different designs and sizes catering to a wide range of client requirements. Ratings take cognizance of the healthy growth in the company's total operating income (TOI) and profitability in FY23 (refers to the period April 01 to March 31) and 9MFY24 (refers to the period April 01 to December 31) largely due to the growth in both volumes and realizations, moderation in financial risk profile owing to sizeable capex incurred, and adequate liquidity.

However, above rating strengths are partially offset by the company's profitability susceptible to volatile raw material and fuel prices, revenue concentration from liquor segment, though expected to reduce going forward, on-going project risk, working capital intensive operations, and HGL's support towards its joint venture (JV).

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving scale of operations above ₹500 crore led by increasing volumes with profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 16% on a sustained basis.
- Improving total debt to PBILDT below 2x on a sustained basis.

Negative factors

- Substantially decreasing TOI below ₹250 crore on a sustained basis.
- Total debt to PBILDT above 5x on a sustained basis.
- Additional sizeable investments in the JV putting pressure on the liquidity.

Analytical approach: Standalone

Outlook: Negative

The continuation of "Negative" outlook reflects CARE Ratings Limited's (CARE Ratings') expectation of continued impact on its credit profile and debt coverage indicators owing to upward revision in cost owing to change in scope with additional capex for catering to US markets. The outlook may be revised to 'Stable' if the company is able scale up its operations and earn profit with improvement in cash flows.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters and long track record of the company's operations:

HGL is promoted by N. D. Shetty (the founder; Executive Chairman), having more than five decades of experience in manufacturing glass containers. He and his son, T. N. Shetty (Managing Director), are actively involved in the company's day-to-day operations. Besides, Niraj Tipre, CEO, is a Postgraduate in Management and Bachelor of Science Graduate, possessing rich exposure in global operations management, acquisition integration, turnaround management, and strategy development. He has over 20 years of experience in premium glass container segments, and under his leadership and guidance, HGL has entered the premium segment both under alcoholic and non-alcoholic (such as fast-moving consumer goods [FMCG], beverage, and perfume among others) by adding new customers. The promoters are assisted by well-experienced professionals for managing the company's operations.

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

In-house mould designing and manufacturing facility

HGL has a fully equipped mould manufacturing workshop to manufacture bottle moulds of all designs and shapes, and a 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 1 ml 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 such as liquor manufacturing, foods and non-alcoholic beverage manufacturing, and pharmaceutical sector. HGL has been able to receive repeat orders from some of its key clients, as it has been able to establish itself as a preferred vendor for glass containers. The company is in the process of entering into US market under premium glass segment where margins are higher than in the liquor segment.

Improved operational performance and healthy profit margins in FY23 and 9MFY24

HGL reported a significant improvement in TOI (around 50%) from ₹214.54 crore in FY22 to ₹321.74 crore in FY23. Healthy jump in revenues was due to improved volume and realisation as a result of change in the product mix under which the company has removed non-profitable products and other initiatives resulting in improved realisation the improved realisation was also attributable to higher input cost. However, in 9MFY24, wherein HGL's reported TOI of ₹214.56 crore (against ₹245.78 crore in 9MFY23). Decline in the revenue was shut down of the plant most part of second quarter of FY24 for its expansion, thereby impacting the production levels.

The company's profitability margins stood healthy, marked by PBILDT and profit after tax (PAT) of 10.09% and 6.12%, respectively, for FY23, as against 8.46% and 5.06%, respectively, in FY22. Improvement in margins was due to improved realisation and higher raw material cost, which the company was able to pass on to its customers, through price hikes in FY23. In 9MFY24, PBILDT and PAT margins further improved and stood at 12.05% and 5.85%, respectively (against 11.20% and 5.92% in 9MFY23). Improvement in margins was mainly backed by product premiumisation and receiving orders from top brands from non-alcoholic segment, fetching better margin. Going forward, through recent capacity expansions and refurbishment, with dedication of one line towards premium quality glass production, the product mix is expected to remain favourable and thereby improvement in profitability margins to be sustained.

Moderation in financial risk profile owing to sizeable capex incurred

HGL's financial risk profile continued to remain comfortable with overall gearing at 0.25x as on March 31, 2023. However, with additions of debt towards the capex plan (recently concluded), the leverage is expected to moderate to 0.59x-0.79x levels as at the end of FY24-26, though remain comfortable. For similar reason, total debt to gross cash accruals (TDGCA) is also expected to moderate to 1.73x at FY23-end compared to 0.74x at FY22-end. Its PBILDT interest cover, which was 23.94x in FY22 has declined to 16.92x in FY23, further expected to weaken to around 5.56x in FY24.

Key weakness

Sector concentration risk, though expected to improve

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% consists of FMCG, food and beverage, and cosmetics sectors. 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 ₹42.82 crore in FY23 (against ₹25.94 crore in FY22). The company caters to Africa, Nepal, and Sri Lanka for exports. Under current capex, one of the furnace lines will dedicate to premium quality glass production to tap the premium market in the US.

Working capital intensive operations

HGL provides credit period in the range of 30 days to 60 days to majority of its clients. The company needs to maintain inventories of about two to three months. On the other hand, the company does not enjoy longer credit period from its major suppliers. As a result, the company's operating cycle ranges between 90 and 120 days. In FY23, there has been an improvement in the inventory period from 56 days in FY22 to 34 days in FY23, as the inventory lying due to COVID-19 was sold off in FY23. Also, the collection period also improved from 84 days in FY22 to 63 days in FY23, due to faster recovery of payment from one of HGL's key customers, resulting in reduction in debtors. This has resulted into reduction in working capital cycle days from 102 days in FY22 to 68 days in FY23.

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 such as premium liquor, food, candle jars, cosmetics, and perfumes. Initially, the project's total cost was estimated at ₹150 crore, planned to be funded by a mix of Rupee/Dollar term loan of ₹90 crore and

internal accruals of ₹60 crore with operations was envisaged to commence from September 2023. As against this, the company has incurred a total cost of ₹175 crore for the project and commenced operation in September 09, 2023. The additional ₹25 crore has been incurred towards capex with change in certain design/equipment for better efficiency (change in furnace design resulting in to additional refractories, increase in prices of refractories and use of new brand and new IS machine in place of refurbished machine as planned earlier), and the same has been funded through internal accruals of ₹10 crore and additional term loan availed of ₹15 crore.
This apart, the company is also implementing another capex of ₹32 crore planned for FY24 to meet desired quality and customer requirement and is proposed to funded by term loan of ₹29 crore and ₹3 crore by internal accrual. Under the said capex, one of the furnaces (F4) has been shut down from March 14, 2024 for 30 days, which will thus impact the revenue and profitability of the fourth quarter.
Going forward, the projects timely execution to accrue envisaged benefit from its recently completed capex remains 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 profit margins to volatility in 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, limestone, and dolomite account for 70% of the total raw material costs. Given its 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 according to the prevailing fuel prices (furnace oil or natural gas) and its availability to enable optimum savings in the fuel cost.

Exposure to JV
To diversify its product portfolio, HGL entered 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 ₹131.05 crore and PAT of ₹1.68 crore in FY22. As on March 31, 2022, the company has invested ₹41.75 crore in the form of equity. The company does not envisage any major fund infusion in FY24. The company is engaged in manufacturing premium glass containers used in cosmetic and perfumes industry.

Liquidity: Adequate
Healthy cash accruals, moderate utilisation of fund-based working capital limits, moderate long-term debt repayment obligations, and healthy free cash and bank balance represents HGL's adequate liquidity. The maximum utilisation of its fund-based working capital limits remained moderate at around 72% in the last 12 months ended January 2024. HGL's operating cycle improved in FY23 and continues to remain moderate at 68 days (PY: 102 days) due with improvement in collection and inventory period. As on March 31, 2023, HGL had a free cash and bank balance of ₹2.83 crore and ₹2.07 crore as of December 2023, which provides significant cushion in case of any exigencies. The company is projected to generate a GCA in the range of ₹45 crore to ₹50 crore as against a debt repayment of ₹12 crore to ₹20 crore for the projected period.

Environment, social, and governance (ESG) risks

Particulars	Company's initiative
Environment	The company has undertaken the following steps for energy conservation. • Started using hybrid power through new substation. • Replacement of conventional lights with LED • Centralised RO plant and Sewage Treatment Plant so as to provide better quality of water and enhanced reuse of the same resulting in savings of water.
Social	In FY23, in line with the quantum required by the Law, the company has spent ₹0.29 crore towards promoting education as a part of CSR activities. To look after regular compliance, it has constituted a CSR committee chaired by the Managing Director. It has also published CSR policy and projects approved by the Board on its website.
Governance	The Corporate Governance Report addressing various compliance aspects has been part of the Annual Report for FY23. Moreover, the Compliance Certificate on Corporate Governance signed by the Company Secretary forms part of Annual Report of FY23, according to which, the company has been in compliance with SEBI [Listing Obligations and Disclosure Requirements] Regulations, 2015.

Applicable criteria:
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Consumer durables	Consumer durables	Glass - consumer

Incorporated in 1991, HGL (formerly known as Haldyn Glass Gujarat Limited) is involved in manufacturing and marketing 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. N. D. Shetty, Executive Chairman, has an experience of more than five decades in the glass manufacturing segment. HGL's manufacturing plant is located at Vadodara, Gujarat, and with conclusion of capex as on September 30, 2023, its total melting capacity has increased from 350 tons per day to 445 tons per day comprising two glass melting furnaces (285 + 160 tons per day capacity) and 8 I.S. machines having four lines of machine for each of the furnace needed for manufacturing a wide range of containers from 1 ml to 2500 ml. The I.S. machines can produce about 1.5 million high-quality containers every day. Glass containers manufactured by HGL are supplied to liquor, cosmetic, and food and beverages industry, with the company deriving majority of its revenues from liquor industry.
In FY16, HGL entered a 50:50 JV with Heinz Glass International GmbH of Germany, named as Haldyn Heinz Fine Glass Private Limited (HHFPL). As on March 31, 2023, HGL had 56.80% shareholding in the JV with total equity exposure amounting to ₹41.75 crore. HHFPL is engaged in manufacturing glass bottles used for perfumes and cosmetics. The company caters to clients based in Europe and USA.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	214.54	321.74	214.56
PBILDT	18.17	32.46	25.87
PAT	10.87	19.70	12.56
Overall gearing (times)	0.07	0.25	0.57
Interest coverage (times)	23.94	16.92	6.25

A: Audited; UA: Unaudited; NA- Not available; Note: 'these are latest financial results 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 Ratings: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

Rating history for last three years: Please refer to 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		-	-	-	52.00	CARE A-; Negative
Fund-based - LT-Term Loan		-	-	March 2031	133.67	CARE A-; Negative
Non-fund-based - ST-BG/LC		-	-	-	14.00	CARE A2
Non-fund-based - ST-Standby Line of Credit		-	-	-	4.00	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 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	Fund-based - LT-Cash Credit	LT	52.00	CARE A-; Negative	-	1)CARE A-; Negative (13-Feb-23) 2)CARE A-; Negative (07-Oct-22) 3)CARE A-; Stable (05-Apr-22)	-	1)CARE A-; Stable (30-Mar-21)
2	Non-fund-based - ST-BG/LC	ST	14.00	CARE A2	-	1)CARE A2 (13-Feb-23) 2)CARE A2 (07-Oct-22) 3)CARE A2 (05-Apr-22)	-	1)CARE A2 (30-Mar-21)
3	Non-fund-based - ST-Forward Contract	ST	-	-	-	-	-	1)Withdrawn (30-Mar-21)

4	Fund-based - LT-Term Loan	LT	133.67	CARE A-; Negative	-	1)CARE A-; Negative (13-Feb-23)	-	-
5	Non-fund-based - ST-Standby Line of Credit	ST	4.00	CARE A2				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities : Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	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
4	Non-fund-based - ST-Standby Line of Credit	Simple

Annexure-5: Lender details

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

Note on complexity levels of the rated instrument: 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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