

Hindustan Adhesives Limited

December 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	62.10 (Enhanced from 61.21)	CARE BBB; Stable	Reaffirmed
Short Term Bank Facilities	24.57 (Enhanced from 15.79)	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Hindustan Adhesive limited (HAL) factor in the improvement in profitability margin in FY24 (refers to the period from April 1, 2023, to March 31, 2024) despite moderation in the topline, owing to increased focus and contribution from specialized products which fetches relatively better profitability margins, and stable financial risk profile marked by improved overall gearing and steady operational cash flows. The ratings 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, however, continue to remain constrained by presence of large organized and unorganized players in the packaging segment along with high fluctuations in the price of raw material and declining scale of operations in FY24. Furthermore, CARE Ratings takes cognizance of sizeable capex announced by the company at group level towards expansion and adding new product lines and its timely completion along with stabilization of augmented capacities will be a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations beyond Rs.400.00 crore and improvement in PBILDT margin above 11% (Profit Before Interest, Lease Rental, Depreciation and Taxation) on a sustained basis.
- Improvement in overall gearing below 1.25x on a sustained basis.

Negative factors

- Decline in scale of operations below Rs.200.00 crore with substantial decline in operating margin leading to stretched liquidity on a sustained basis.
- Deterioration in capital structure with TDGCA (Total Debt to Gross Cash Accruals) above 3.50x on sustained basis.

Analytical approach: Consolidated

CARE Ratings has considered a consolidated approach view of Hindustan Adhesives Limited (HAL) and its subsidiary due to common management, significant operational and financial linkages among the companies. The list of entity considered in consolidation is mentioned in **Annexure-6**.

Outlook: Stable

CARE Ratings believes that the entity shall sustain its growth in operational performance on back of setting up of new manufacturing in Howrah (West Bengal) and Mundra (Gujarat) by Bagla Technopack Private Limited (BTPL) coupled with experienced promoters, long operational track record along with long-standing relationship with reputed clients.

Detailed description of key rating drivers:

Key strengths

Improved overall gearing and debt coverage indicator: The overall gearing of the company improved to 0.93x as on March 31, 2024, as against 1.15x on March 31, 2023. This improvement is largely driven by scheduled repayment of term loans from steady cash accruals, which has also resulted in lower interest outgo during the last fiscal. Further, HAL has group company investments (except investment in BTPL) of Rs.2.39 crore as on March 31, 2024 (PY: Rs.3.42 crore) leading to adjusted gearing (post adjustment of group company investments) of 0.96x as on March 31, 2024 (PY: 1.22x).

Further, improved profitability margin led to improvement in debt coverage indicators as marked by interest coverage of 6.62x in FY24 (PY: 3.44x) and TDGCA of 2.92x in FY24 (PY: 4.60x). However, the same is expected to moderate in the near midterm owing to the ongoing debt funded capex.

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

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, 2024.

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 has also supported the growth in the export revenue over the past few fiscals. 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 albeit improving profitability margin in FY24: During FY24 the scale of operations of the company remains moderate and declined by ~5.73% to Rs.306.17 crore (PY: Rs.324.79 crore) primarily on account of a strategic shift towards manufacturing specialized products like "Eco Tear Tape, Eco Rim, and Biodegradable Tape or Sustainable Tape," which offer better profitability margins. Consequently, the company has reported better profitability margin as marked by increase in PBILDT margin by 419 bps to 11.39% in FY24 (PY: 7.20%) and PAT margin by 378 bps to 5.28% in FY24 (PY: 1.50%). However, the company has witnessed some recovery during H1FY25 (refers to the period from April 01 to Sep 30, 2024) with company's total operating income stood at Rs.150.49 crore with PBILDT margin of 11.35% (H1FY24: 10.62%), which is expected to improve further in H2FY25 (refers to October 01, 2024 to March 31, 2025) with uptick in demand.

Sizeable debt-funded capex: During FY24, Hindustan Adhesives Limited has acquired the 100% shareholding of Bagla Technopack Private Limited increased from 49% in FY23. Further, the group plans to undertake a capital expenditure of Rs.68.00 crore, with HAL investing Rs.30.00 crore and BTPL investing Rs.38.00 crore. HAL will focus on manufacturing tear tape, a narrow strip of adhesive-backed film used for easy opening of various packaging, including cigarette packs, confectionery, pharmaceuticals, and other consumer goods, at Howrah (West Bengal). Meanwhile, BTPL will produce multilayer co-extruded and bio-oriented barrier heat shrinkable films, known as "Barrier Films," at Mundra (Gujarat). The total capex of Rs.68.00 crore will be funded by debt (~53%), equity (~43%), and internal accruals (~4%). The project debt has already been tied up. However, the timely completion of the capex without any cost overruns will be a key monitorable factor.

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 remained similar at around 31.18% in FY19 to about 31.47% in FY23 except 24.41% in FY22 on account of company's inability to pass on increased input cost to the end consumer. However, a strategic shift towards manufacturing specialized products led to an improvement in the gross margin to 32.20% in FY24.

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 as characterized by sufficient cushion in accruals marked by expected cash accruals of Rs.28.60 crore in FY25 as against scheduled debt repayment of Rs.5.36 crore. The company has free cash and bank balance of Rs.0.23 crore as on March 31, 2024. However, the average working capital utilization remains ~95% for the trailing twelve months ending October 2024. The group is projected to incur the debt funded capex of Rs.68.0 crore in FY25-FY26.

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

[Consolidation](#)

[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

Macroeconomic 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 two manufacturing units; one in Uttar Pradesh (Ghaziabad) and one in Gujarat (Mundra). Apart from HAL, the group has another company Bagla Polifilms Limited (BPL) which started its operations in 1988.

Brief Financials (₹ crore) (Consolidated)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	324.79	306.67	150.49
PBILDT	23.39	35.35	17.09
PAT	4.88	16.16	7.50
Overall gearing (times)	1.15	0.81	NA
Interest coverage (times)	3.44	6.72	4.27

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: India Ratings has continued the ratings assigned to the bank facilities of Hindustan Adhesives Limited to the 'issuer not -cooperating' category vide press release dated May 15, 2024 on account of its inability to carryout review in the absence of requisite information from the company.

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	46.60	CARE BBB; Stable
Fund-based/Non-fund-based-Short Term		-	-	-	0.07	CARE A3+
Non-fund-based - ST-BG/LC		-	-	-	24.50	CARE A3+
Term Loan-Long Term		-	-	30 July 2025	15.50	CARE BBB; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Term Loan-Long Term	LT	15.50	CARE BBB; Stable	-	1)CARE BBB; Stable (04-Dec-23)	1)CARE BBB; Stable (30-Nov-22)	1)CARE BBB; Stable (23-Nov-21) 2)CARE BBB; Stable (08-Nov-21)
2	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	1)Withdrawn (04-Dec-23)	1)CARE BBB; Stable (30-Nov-22)	1)CARE BBB; Stable (23-Nov-21) 2)CARE BBB; Stable (08-Nov-21)
3	Fund-based - LT-Cash Credit	LT	46.60	CARE BBB; Stable	-	1)CARE BBB; Stable (04-Dec-23)	1)CARE BBB; Stable (30-Nov-22)	1)CARE BBB; Stable (23-Nov-21) 2)CARE BBB; Stable (08-Nov-21)
4	Non-fund-based - ST-BG/LC	ST	24.50	CARE A3+	-	1)CARE A3+ (04-Dec-23)	1)CARE A3+ (30-Nov-22)	1)CARE A3+ (23-Nov-21) 2)CARE A3+ (08-Nov-21)
5	Fund-based/Non-fund-based-Short Term	ST	0.07	CARE A3+	-	1)CARE A3+ (04-Dec-23)	1)CARE A3+ (30-Nov-22)	1)CARE A3+ (23-Nov-21) 2)CARE A3+ (08-Nov-21)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based/Non-fund-based-Short Term	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Term Loan-Long Term	Simple

Annexure-5: Lender detailsTo view the lender wise details of bank facilities please [click here](#)**Annexure-6: List of entities consolidated**

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Bagla Technopack Private Limited	Full	Wholly owned Subsidiary

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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