HSIL Limited

March 22, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,500.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	230.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**1,730.00 (Rs. One Thousand Seven Hundred Thirty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of HSIL Limited (HSIL) continues to derive strength from its experienced promoters, its established track record of operations, its strong market position and established relations with its institutional clients in the container glass segment. The ratings also factor in the diversified presence in the packaging products segments and expansion done by the group in the security caps & closures to complement its container glass segment & its comfortable financial risk profile. The rating also takes cognizance of the impending slump sale transaction of Building product division (BPD) to another group company; Brilloca Ltd (rated CARE A+; Stable/A1+) which will reduce the related party transaction at the group level and will aid in the re-alignment of business segments.

These rating strengths are, however, partially off-set by capital intensive nature of industry leading to moderate capital structure, susceptibility of HSIL's financial profile to raw material and fuel price fluctuation risk and foreign exchange fluctuation risk.

Rating Sensitivities

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

- Increase in TOI by more than 20% on a sustained basis and improvement in its PBILDT Margin to 18% or more going ahead on a sustained basis.
- Ability of the company to lower its TD/PBILDT to below 2.5x on a sustained basis.

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

- Any significant increase in its operating cycle
- Deterioration in its capital structure on a sustained basis (Overall Gearing of more than 1.20x in the projected period) on account of higher than projected debt funded capex or increase in its working capital borrowings.
- Total debt to PBLIDT above 3x on a sustained basis

Detailed description of key rating drivers

Key rating strengths

Experienced Promoters

HSIL is promoted by Dr. R K Somany who is the Chairman and Managing Director of the company and has an extensive experience of around 65 years in the industry. Dr. R K Somany is supported by his son Mr Sandip Somany who actively manages the overall operations of the company. Mr. Sandip Somany has around 35 years of experience in the ceramics and glass industry. The extensive experience of the promoter in the business has helped in developing the AGI brand and also establishes the relationship with their customers and suppliers. The board of the company is broad-based and has several independent professional members having vast industry experience in diverse backgrounds. The operations of the company are managed by well qualified and experienced senior management team.

Long track record with strong market position

HSIL, incorporated in February 1960 to introduce vitreous China ceramic sanitary ware in India and diversified into the manufacture of glass containers through the acquisition of Associated Glass Industries Limited (AGI) in 1981. HSIL holds a significant market share in all the business verticals of its presence. Post Demerger in 2019, HSIL was housing the entire packaging products division (PPD) and was also engaged in the manufacturing of Buildings Products for its group company; Brilloca Ltd on a cost-plus basis. With the proposed slump sale transaction, which was earlier announced in Jan 2022, the Building Products division's entire operating facilities of HSIL will be transferred to Brilloca Ltd leaving apart some land parcels on which Brilloca Ltd. will continue to pay lease rentals to HSIL Ltd. Going forward, HSIL will completely be a packaging company.

HSIL is the 2nd largest manufacturer of glass containers in India with approximately 20% market share in organised glass packaging industry catering marquee clients in the packaged beverages, food, beer, liquor, chemical and pharmaceutical

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

sectors. The group through its other company Brilloca Ltd is also a leading manufacturer of sanitaryware products in India and is the second largest faucet players in the domestic market..

Diversified product portfolio with long standing reputed client base

Post Demerger of HSIL Limited, Marketing & Distribution of Consumer Products and Retail businesses were transferred to Somany Home Innovation Limited (SHIL, CARE A+; Stable/A1+) while Marketing & Distribution Business of Building Products was transferred to Brilloca. The manufacturing of Building Products (includes range of sanitaryware, faucets, plastic pipe and fittings, wellness products and other allied products) and packaging products continued to remain with HSIL Ltd. The manufacturing of the BPD segment however shall stand transferred to Brilloca post the proposed slump sale transaction by March 2022 end.

Company has over the years built a wide-ranging portfolio of packaging products for both glass and PET, along with synergic product business of security caps and closures. Company is positioned as one of the significant glass container manufacturers in the country, offering packaging solutions to multiple sectors. Company products cater to a large reputed diversified customer base (which includes names like Abott, Coca cola, Bacardi, Carlsberg etc.) with a product range covering flint, amber and green containers. Company's plants are equipped to manufacture 5 ml to 4000 ml of glass bottles and 10 ml to 10 ltrs of PET bottles in various shapes, sizes and colours. Company is selling Packaging products as a Brand Portfolio. Under AGI Brand for Glass Containers, GP Brand for PET bottles and plastic products and AGI Clozures for security Caps and Closures.

During FY21 (refers to period from April 01 to March 31), manufacturing of Building products constituted around 32% (PY: 31%) of its gross sales while the balance is contributed by packaging product division. While going forward, the entire sales will be contributed by the PPD segment.

Comfortable financial risk profile

In FY21, the company has been able to largely maintain its top-line at Rs.1870 crore (as compared to Rs. 1887 crore in FY20), despite covid-19 related disruptions. The operations were affected, both directly and indirectly, as many of the suppliers suspended their operations. However, the glass manufacturing plants were categorised under 'essential category' and were operational, albeit at a lower capacity utilisation. The BPD division contributed Rs.593 cr (30%) of revenue in FY21 with balance from Packaging products. The PBLIDT margin of the company stood at 16.14% in FY21 as compared to 15.83% in FY20. The increase in margin is due to better margins in packaging product division (as shown above). The margins from packaging product division increased from 12.36% in FY20 to 15.61% in FY21. However, margins from building product division remain lower as the company majorly supplies to Brilloca in BPD segment wherein the margins are fixed. In FY21 these margins took a hit when production was affected due to Covid-19 disruptions and the segment had to bear the fixed cost which was absorbed in HSIL Ltd only and could not be passed on to Brilloca Ltd.

Going forward, post the slump sale transaction, as HSIL would not be manufacturing the BPD products on contract basis, the sales and profits pertaining to the entire value chain of BPD will now be booked in Brilloca. This shall lead to better reported margins in HSIL as it would pertain to profitability of only the PPD segment which has margins in the range of 20-22%.

In 9MFY22, the company reported a growth of ~31% in total operating income and stood at Rs.1631 crore. However, on profitability front, the company reported PBILDT margin of 15.39% as against 16.59% in 9MFY21. The decline in profitability was largely due to rising input and fuel costs. PAT stood Rs.70 crore which is higher as compared to Rs.55 crore reported in 9MFY21. The BPD division contributed Rs.603 cr (38%) of revenue with balance from Packaging products. Therefore, post transfer, there shall be loss of revenue and EBIT contribution of BPD segment in HSIL Ltd but the overall income from the PPD segment is expected to increase along with the profitability on account of completion of the specialty glass project and continuous de-bottlenecking that company has been doing to increase its efficiencies & capacity utilizations.

The overall gearing as on March 31, 2021 stood at 0.83x as compared to 0.86x as on March 31, 2020. There has been slight decrease in total debt in FY21 mainly in the year end cc utilization limits. The total debt as on March 31, 2020 stood at Rs.1065 crore which reduced to Rs.1019 cr as on March 31, 2021. The Long term debt by the end of FY22 is expected to be at similar levels of FY21 due to availment of fresh debt for capex purposes which is almost equivalent to the amount being repaid during the year from the slump sale proceeds.

The company undertaking a capex for increasing its capacity of pipes and faucet division and also involved in doing regular capex and capex to improve its operational efficiency including backward integration in Glass and sanitary ware

Liquidity: Adequate

The average working capital utilization for 12 months ending on December 31, 2021 stood at 46% leaving sufficient liquidity buffer. Further, the Cash and Bank Balance of the company stood at Rs.6 Crore as on March 31, 2021 while as on Nov 30, 2021, it stood at Rs.12.70 crore in form of FDs parked with SBI. Additionally, Rs 8 crore is earmarked with SBI for interest rate swap facility. The repayment obligations for FY22 are Rs. 86.81 crore and HSIL has paid Rs 46 crore till Nov 30, 2021. Current ratio of the company stood at 1.31 as on March 31, 2021 (1.35x as on March 31, 2020) and Operating Cycle of the company stood at 110 days for FY21 (97 days for FY20).

Key Rating Weaknesses

Capital intensive nature of industry albeit completion of major debt Funded Capex

The company has almost completed the capex pertaining to specialty glass product with capacity of 150 Tons per day (TPD) and for this the company has invested around Rs.230 crore, against which the plant has been set up at Bhongir, Telangana. The product will mainly cater the domestic requirement; however the company might also export around 10-15% of the same. It will be used in segments like pharma vitals, perfumery, cosmetics and high-end liquor. The company expects to commence

operations for this product from FY23 onwards. The total project cost for setting this up was Rs.230 crore which was funded in debt equity ratio of 2.33:1.
Further, the company is engaged in debottlenecking and furnace relining which are expected to improve efficiency going forward. The inherent nature of the industry leads to significant amount of capex on regular basis for maintaining furnaces which leads to debt levels remaining high. Furthermore, the ability of HSIL to successfully execute its capital expenditure projects without any cost & time overrun and derive the projected returns without deteriorating its capital structure would be the key rating sensitivities going forward.

Exposure to material cost and power price fluctuation
Soda Ash which is a major raw material for manufacturing Container Glass has been the key contributor to the raw material cost. Power and Fuel Cost is another significant cost-item for the company. Company in the past has regularly done capex to reduce the power cost by substitution of high-cost fuel (furnace oil) by alternate fuel i.e. pet coke & natural gas, to fire the glass furnaces. With established presence in the container glass segment, HSIL has been able to pass-on the increase in costs to consumers either fully or partially but with a lag, depending upon the demand and the competitive scenario; nevertheless, managing the fluctuation in prices of inputs shall remain critical.
High crude oil prices and adverse movement of foreign currency has impacted the profitability of the company in the past. Further with rising coal, natural gas & fuel prices in current year, some moderation in the profitability has been witnessed in Q3FY22 and expected in Q4FY22 as well though it is expected that the company will be able to pass on the same with a lag. Further, any further adverse movement in the commodity prices can keep the operating margins of the company under pressure and may negatively impact the profitability margins of the company. Thus, managing the fluctuation in prices of inputs shall remain critical.

Foreign Currency Risk
With limited exports relative to imports along-with foreign currency borrowings, exposes HSIL to exchange rate fluctuation risks. Although, HSIL partially hedges its forex exposure, in the absence of complete natural hedge and un-hedged forex position, HSIL remains exposed to risks emanating from volatility in exchange rate. Although, HSIL has a practice to hedge its forex exposure from time to time to mitigate the risk attached with foreign currency fluctuation risk. The company is having two foreign currency loans amounting Rs.245.20 cr as on Dec 31, 2021 (PY: Rs.267.64 crore as on June 30, 2021). Further, the company had booked forward contracts for hedging purpose.

Industry outlook
There has been a growing trend to reuse glass packaging solutions, especially bottles in India. As Indian consumers are focused on health, they are showing preference for glass packaging over other options, as glass prevents leaching from its surface. The industry is seeing a spike in demand from the food and beverages and pharmaceutical sectors post-pandemic on the back of increased demand for food jars, medicine, and beverage bottles. Demand for glass packaging for cosmetics and perfumes also remains strong. The global dairy industry has been witnessing a backward shift from plastic to glass bottles following a shift in consumer preference for environment-friendly milk packaging and increased emphasis on health and hygiene. The Indian glass container market possesses ample headroom for growth, as reflected in an estimated CAGR of 6.78% between 2021 and 2026.
The key growth drivers include low per capita glass consumption, reasonable prices of glass containers, strong and sturdy nature of packaging, and the high sustainability quotient of the form of packaging (source: HSIL Annual report).

Analytical approach: Standalone

Change in approach: A standalone approach was being followed earlier as well albeit factoring in the linkages with its group companies (SHIL & Brilloca rated CARE A+; Stable/A1+) owing to common management and strong business & operational linkages with them. However, post the transfer of BPD manufacturing announcement, the approach will only be Standalone and operational linkages will not be there as the BPD segment will not form part of HSIL going forward.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Manufacturing Companies
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial sector entities
Financial Ratios – Non financial Sector

About the company
HSIL, incorporated in February 1960, was promoted by Kolkata-based Somany brothers and, currently, the management control vests with Dr. R K Somany. HSIL diversified into the manufacture of glass containers through the acquisition of Associated Glass Industries Limited (AGI) in 1981. PET bottles business was added through the acquisition of Garden Polymers Private Limited (GPPL) in 2011. Packaging Products Division further expanded its business and launched counterfeit-resistant caps and closures under the brand 'AGI Clozure'. During FY18, the Board approved a scheme of arrangement for demerger of the Company's businesses. The Marketing and Distribution business of Consumer Products Division and Retail Division into a separate entity, Somany Home Innovation Limited (SHIL), and the Marketing and Distribution business of Building Products Division into a separate entity, Brilloca Limited (Brilloca), each as a going concern.

The scheme was effective from the Appointment date i.e. April 01, 2018. Post the announcement of the slump sale deal by the group in Jan 2022, the manufacturing of the BPD segment shall also house in Brilloca Ltd going forward.
Post the slump sale, the manufacturing facilities pertaining to BPD division have been transferred to Brilloca. Out of 11 manufacturing facilities earlier held by HSIL, two sanitaryware plants at Bahadurgarh in Haryana and Bibinagar in Telangana, two faucet plants at Kaharani and Bhiwadi in Rajasthan and One plastic pipes and fittings plant at Sangareddy in Telangana have been transferred to Brilloca. Hereafter, in the Packaging division, company is having two glass container facilities at Sanathnagar and Bhongir in Telangana, three PET bottles and products facilities at Selaqui in Uttarakhand, Dharwad in Karnataka, and Sangareddy in Telangana and one security caps and closures facility at Sangareddy in Telangana.

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

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (Prov.)
Total operating income	1887	1870	1631
PBILDT	299	302	251
PAT	48	88	70
Overall gearing (times)	0.86	0.83	NA
Interest coverage (times)	4.06	4.20	5.23

A: Audited; Prov.: Provisional; NA: Not available

Status of non-cooperation with previous CRA: NA

Any other information: NA

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 for this company: Annexure 4

Annexure-1: Details of Instruments / 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
Fund-based - LT-Term Loan		-	-	Sept-2029	1042.00	CARE A+; Stable
Fund-based - LT-Cash Credit		-	-	-	458.00	CARE A+; Stable
Non-fund-based - ST-BG/LC		-	-	-	230.00	CARE A1+

Annexure-2: Rating History of last three 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	Fund-based - LT-Term Loan	LT	1042.00	CARE A+; Stable	1)CARE A+; Stable (04-Jan-22) 2)CARE A+; Stable (26-Jul-21)	1)CARE A+; Stable (03-Mar-21)	1)CARE A+; Stable (27-Feb-20)	1)CARE A+; Stable (28-Jan-19) 2)CARE A+; Stable (20-Nov-18) 3)CARE AA- (CWD) (04-Oct-18)
2	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)Withdrawn (25-Feb-21)	1)CARE A1+ (27-Feb-20)	1)CARE A1+ (28-Jan-19) 2)CARE A1+ (20-Nov-18) 3)CARE A1+ (CWD) (04-Oct-18)
3	Fund-based - LT-Cash Credit	LT	458.00	CARE A+; Stable	1)CARE A+; Stable (04-Jan-22) 2)CARE A+; Stable (26-Jul-21)	1)CARE A+; Stable (03-Mar-21)	1)CARE A+; Stable (27-Feb-20)	1)CARE A+; Stable (28-Jan-19) 2)CARE A+; Stable (20-Nov-18) 3)CARE AA- (CWD) (04-Oct-18)
4	Non-fund-based - ST-BG/LC	ST	230.00	CARE A1+	1)CARE A1+ (04-Jan-22) 2)CARE A1+ (26-Jul-21)	1)CARE A1+ (03-Mar-21)	1)CARE A1+ (27-Feb-20)	1)CARE A1+ (28-Jan-19) 2)CARE A1+ (20-Nov-18) 3)CARE A1+ (CWD) (04-Oct-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. Net Debt/ EBIDTA	<=4.00x
II. DSCR	>=1.20x
III. Fixed asset coverage ratio	>=1.25x
IV. Interest coverage ratio	>=2.00x
B. Non financial covenants	
I. End use of funds	To submit certificate of end use of funds from independent CA within 30 days of disbursement

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-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 Ratings Ltd. 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 CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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