Asahi India Glass Limited

August 23, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,948.32 (Enhanced from 1,708.71)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Long-term/Short-term bank facilities	110.00	CARE A+; Stable/CARE A1+ (Single A Plus; Outlook: Stable/A One Plus)	Revised from CARE A; Stable/CARE A1 (Single A; Outlook: Stable/A One)
Total bank facilities	**2,058.32 (₹ Two thousand fifty-eight crore and thirty-two lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Asahi India Glass Limited (AIS) factors in the improvement in its operating and financial risk profile during FY22 (refers to the period April 01 to March 31) and Q1FY23 (refers to the period April 01 to June 30) characterised by strong growth in the revenue profile driven by recovery in demand from original equipment manufacturers (OEMs) and increase in price realisations in the float glass segment. Consequently, the capital structure and coverage indicators have also improved for AIS. The operating margin of float glass segment has improved over the last two years, as float glass has benefitted from the anti-dumping duty levied on the glass imported from Malaysia in December 2020 (for a period of five years) along with reduced imports from China on account of the decarbonisation drive taken by the country. This has resulted in improved demand-supply dynamics in the favour of domestic float glass manufacturers, which is expected to continue in the medium term.

The ratings further continue to derive strength from AIS' dominant market position, especially in the auto-glass segment with more than >70% market share and around 18% market share in the float glass segment, the experienced and resourceful promoter group, its established track record of operations and sustained relationships with OEMs. The credit profile and ratings of AIS continue to factor in the strong financial flexibility due to continued support of the promoters in AGC Inc and Maruti Suzuki India Ltd who have strong credit profiles. The financial risk profile is further supported by adequate liquidity in the form of unutilised bank lines, which are available with AIS.

AIS is undertaking capital expenditure for greenfield and brownfield capacity expansion over the next three fiscals to be funded through debt and internal accrual over fiscals 2023-2025 in the range of ₹1,700-₹1,900 crore. With healthy accruals, the overall gearing is expected to remain below 1 even after the project capex is drawn. Any higher-than-expected debt-funded capex or moderation in the credit metrics of AIS on account of slowdown in the end-user industry remain a credit monitorable.

The rating strengths are constrained by the exposure of the company to foreign exchange fluctuation risk and volatility in the fuel prices, project risk related to large debt-funded capex and inherent cyclicality in the end-user industry.

Rating sensitivities

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

- Ability of the company to increase its scale of operations by more than 15% from its current levels while maintaining cash accruals over ₹500 crore on a sustained basis.
- Total debt/EBITDA less than 2.2x on a sustained basis.

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

- Any time and cost overrun in the planned capex which may significantly impact AIS's return on capital employed (ROCE).
- Total debt/EBITDA over 3x on a sustained basis.

Outlook: Stable

Detailed description of the key rating drivers

Key rating strengths

Improvement in operational and financial risk profile: During FY22, AIS' total income increased by 29.96% y-o-y to ₹3,170 crore from ₹2,434 crore in FY21, on account of increase in the sales volumes across all segments. The company reported y-o-y improvement in operating profitability driven by improvement in realisation of float glass segment and cost control initiatives. For FY22, the PBILDT margin improved to 243.99% from 18.37% in FY21. The margin improvement was despite all challenges (like elevated RM costs, high fuel and logistic expenses) especially led by healthy margin in the building (float) glass division. In the float glass segment, the company had benefitted by the imposition of anti-dumping duty on imports of float glass from Malaysia during H2FY21, which had led to improvement in the prospects of domestic industry along with reduced imports from China on account of the decarbonisation drive taken by the country. Furthermore, during FY21, the

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

company undertook a series of cost-control initiatives, including reduction of employee costs, negotiation of lease rentals, optimisation of procurement and logistics costs leading to reduction in the fixed costs.
As on March 31, 2022, overall gearing improved to 0.75x from 1.14x as on March 31, 2021. The debt equity ratio also improved to 0.70x from 0.92x. However, leverage levels of the company continue to remain moderate on account of past capex activities especially establishment of greenfield plant at Gujarat. The phase-I of tempered glass production started in February 2021 and laminated glass started in April 2021. The company is expected to commission phase-II and phase-III of the Pathan project by FY24 & FY26, respectively. AIS is also setting up a greenfield project for a third float glass plant to be used mainly for internal consumption towards localisation of raw glass for auto and architectural processing. Although the overall gearing is expected to remain below one time in medium term, it is unlikely to show any major improvement due to expected debt-funded capex over FY23-25. AIS's debt to earnings before interest, tax, depreciation, and amortisation is expected to remain below 2.5x over the next three years even after factoring in the project-related debt. The net debt to PBILDT has improved to 1.97x as on March 31, 2022 from 3.85x as on March 31, 2021. The debt coverage indicators as well improved y-o-y as interest coverage stood at 6.29x (PY: 3.12x) and total debt to gross cash accruals (TD/GCA) at 2.55x (PY: 5.88x).
In Q1FY23, AIS reported 55% growth in its topline y-o-y and stood at ₹923 crore for Q1FY23. The EBITDA margins stood at 24.1% vis-à-vis 20.6% in Q1FY22.

Experienced and resourceful promoter group: AIS is promoted by the AGC Inc., Japan (formerly known as Asahi Glass Co. Ltd; shareholding of 22%), the Labroo family (shareholding of 21%) and Maruti Suzuki India Ltd (MSIL; shareholding of 11%). AGC is the one of the leading manufacturers of glass globally. The operations of AIS are being managed by B.M. Labroo (Chairman), who has vast experience in marketing, finance and corporate governance. Sanjay Labroo (Managing Director) has dual degree in Finance and Management from Wharton School of Business and Finance, USA. He is a former Director of Central Board of Directors of the Reserve Bank of India (RBI). The Board of AIS has representatives from AGC, MSIL, Mitsubushi Corporation (I) Private Limited, Subros Limited among other independent directors.

Long track record of operations and established market position in both auto and float glass segment: AIS started operations in March 1987, with a sole manufacturing facility for toughened glass products for automotive windshields at Bawal (Haryana), and over the years, AIS has enhanced its production facility by setting up more manufacturing facilities at Roorkee (Uttarakhand), Chennai (Tamil Nadu), Taloja (Maharashtra) and Patan (Gujarat), and three sub-assembly units/ warehouses at Pune (Maharashtra), Bangalore (Karnataka) and Anantapur (Andhra Pradesh). The plants and sub-assemblies are strategically located in proximity to India's automotive glass manufacturing hubs. Over a period, AIS has diversified auto-glass product portfolio to include laminated windshields, tempered glass for side and backlite, defogger glass, solar control glass, etc. Furthermore, with high potential for growth in automotive segment, AIS has expanded into the commercial vehicle segment, adding customers and products for "off highway"segment like tractors, earthmoving equipment, city trains, etc. Today, AIS is the market leader in India across the automotive segments — from passenger cars and commercial vehicles to railways and Earth-moving vehicles, and has maintained good relationships with various Original Equipment Makers (OEMs) and currently has market share of >70% in auto glass. AIS entered the float glass segment after acquiring Float Glass India Limited with its manufacturing facility at Taloja (Maharashtra) in 2001. Over the years, AIS has expanded to other manufacturing facilities at Roorkee (Uttarakhand) with enhanced production capacities for float glass. AIS' Float Glass units produce a wide range of value-added varieties of glass, such as heat reflective glass, heat absorbing glass, solar control glass, coloured glass, and mirrors and is the second-largest player in terms of production capacity in the float glass industry in India.

Sustained relationship with OEMs: AIS supplies auto glass to a majority of leading OEMs in the domestic market, including MSIL, Suzuki Motors, Hyundai Motors India Ltd, Kia Motors, MG, Honda, Tata Motors Ltd, Mahindra & Mahindra Ltd, Toyota Kirloskar Motors Pvt. Ltd., Volkswagen India, Ford India, Skoda Auto and Fiat India, and has sustained good relationships with them throughout the years. MSIL is also co-promoter of AIS with 11.11% equity stake and contributed for around 43% of automotive glass sales in FY22.

Key rating weaknesses

Large capex requirement: Glass is a capital-intensive industry where a downturn in the end-user industry may affect its profitability. AIS is actively pursuing on plans to undertake a capex in the range of ₹1,700-₹1,900 crore over fiscals 2022-2025 for capacity expansion (including capex of ₹250 crore on phase-2 and phase-3 of auto glass plant in Gujarat) to be funded by a mix of debt and internal accrual. Any time and cost overrun in the project which may have an impact on profitability will affect debt protection metrics, and hence, remains monitorable for AIS's credit profile.

Exposure to foreign exchange fluctuation risk: The company remains exposed to the risks associated with volatility in foreign exchange rates, mainly on account of import of raw materials, stores and spares and foreign currency term loan payments. The net exposure of the company in foreign currency stood at ₹518.17 crore as on March 31, 2022 (₹588.69 crore as on March 31, 2021). However, the foreign currency term loan (₹154.64 crore as on March 31, 2022) of the company is fully hedged (company has entered into Currency Interest Rate Swap (CIRS) against any rupee vs dollar movement in the future.

Volatility in fuel cost of the company and susceptibility to inherent cyclicality in the auto industry: The glass industry is highly energy extensive industry with power and fuel costs constituting a significant portion of the total cost. The power and fuel cost of the company stood at ₹463 crore (which is 14.88% of the total income and 19.76% of the total cost of sales) in FY22 from ₹303 crore (which is 12.64% of the total income and 15.65% of the total cost of sales) in FY21. The y-o-y

increase in the power and fuel cost was on account of inflated fuel (crude oil/natural gas) prices during majority of FY22 due to COVID-19 impact. Also, the company has the ability to change the fuel mix as and when required as per the fuel's respective prevailing prices to enable optimum savings in the fuel cost. AIS is however able to pass on the cost escalation in a gradual manner given its competitive position in the industry. It has also applied for the price hikes with OEMs in the auto glass segment. AIS is generally able to pass on any cost escalation in the auto glass segment given its market position but that is with some lag.
AIS derives 50%-55% of its revenue from the auto OEM segment, which is inherently cyclical. Auto OEMs were adversely hit by the ongoing coronavirus pandemic as well as slowdown in the Indian economy, and growth recovered only H2FY21. The shortage of semi-conductor chips has also impacted auto industry in the current fiscal. The performance of AIS remains vulnerable to economic downturns.

Liquidity: Adequate
The company's liquidity position is expected to remain adequate with sufficient accruals to meet its repayment obligations. The company's repayment for FY23 stands at ₹309 crore against the GCA of ₹517 crore achieved in FY22. Such cash accruals are expected to sustain for FY23 and FY24 as well going forward. The current ratio of the company stood at 1.31x as on March 31, 2022. The company had free cash and cash equivalents of ₹102 crore as on March 31, 2022. Furthermore, the company sufficient liquidity in terms of unutilised working capital limits and undrawn term loan limits. The average 12 months working capital limits utilised as on June 30, 2022 stood at 24%. Also, the company has undrawn sanctioned term loan limits of ~₹450 crore as on June 2022, which could be drawn to shore-up its liquidity, if required.

Analytical approach
CARE Ratings Limited (CARE Ratings) has changed the analytical approach of AIS from standalone to Consolidated.
CARE Ratings has consolidated the business and financial risk profiles of AIS and its subsidiaries (AIS Glass Solutions Ltd, Integrated Glass Materials Ltd, GX Glass Sales and Services Ltd) as these are an integral part of AIS's operations. The ratings continue to factor in the strong business linkages with promoters, AGC Inc. (erstwhile Asahi Glass Co Ltd, Japan – 22% stake) - a global leader in architectural and automotive glass and MSIL (erstwhile Maruti Udyog Ltd. – 11% stake)- a market leader in the domestic passenger car industry.
Entities getting consolidated are as below

Name of Entity	% Shareholding
Subsidiaries	
AIS Glass Solutions Ltd	82.55%
Integrated Glass Materials Ltd	93.48%
GX Glass Sales and Services Ltd	100%
Associates	
AIS Distribution Services Limited	49.98%
AIS Adhesives Limited	47.83%
Timex Group Precision Engineering Limited	30%
Fourvolt Solar Private Limited	40%

Applicable criteria
Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE Ratings' policy on Default Recognition
Consolidation
Manufacturing companies
Auto ancillary companies
Criteria for short-term instruments
Liquidity analysis of non-financial sector entities
Financial ratios – Non-financial sector
Rating methodology – Notching by factoring linkages in ratings

About the company
Asahi India Glass Ltd (AIS) was formed in 1984 as a joint venture between the Labroo Family, Asahi Glass Co. Limited and Maruti Suzuki India limited. Initially known as the Indian Auto Safety Glass Private Limited, the company changed its name to Asahi India Safety Glass limited (AIS) in 1985. It started operations with the manufacture of toughened glass for MSIL. Subsequently, with the acquisition of Float Glass India Limited, it forayed into the construction glass business, and changed its name to AIS in September 2002. AIS is promoted by the Labroo family (21%), Asahi Glass Company Limited, Japan (AGC; 22%) and Maruti Suzuki India Limited (MSIL; 11%). AIS operates under two strategic business units (SBUs), namely, AIS Auto Glass (laminated and tempered glass) and AIS Float Glass (Architectural Glass and Consumer Glass) with revenue contribution of 56% and 44%, respectively, in FY21 (59% and 41%, respectively, in FY20). As on March 31, 2022, total installed capacity stood at 12.90 million square metres for tempered glass, 6.8 million pieces for laminated glass and 78.32 million converted

square metres (CSQM) for float glass. The manufacturing facilities of AIS are strategically located at Haryana, Uttarakhand, Tamil Nadu, Maharashtra and Gujarat.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	April – June 2022 (UA)
Total operating income	2,434	3,170	923
PBILDT	447	761	222
PAT	131	343	106
Overall gearing (times)	1.14	0.75	NA
Interest coverage (times)	3.12	6.29	8.62

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of the rated instruments/facilities: 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 (₹ crore)	Rating Assigned along with Rating Outlook
Term loan-Long term		-	-	2027	514.15	CARE A+; Stable
Fund-based - LT-Working capital limits		-	-	-	535.00	CARE A+; Stable
Fund-based - LT-Working capital limits		-	-	-	250.00	CARE A+; Stable
Non-fund-based-LT/ST		-	-	-	110.00	CARE A+; Stable / CARE A1+
Term loan-Long term		-	-	2027	564.17	CARE A+; Stable
Fund-based - LT-Working capital limits		-	-	-	85.00	CARE A+; 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 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	Term loan-Long term	LT	514.15	CARE A+; Stable	-	**1)CARE A; Stable** (03-Aug-21)	1)CARE A-; Negative (02-Sep-20)	1)CARE A; Negative (03-Sep-19)
2	Fund-based - LT-Working capital limits	LT	535.00	CARE A+; Stable	-	1)CARE A; Stable (03-Aug-21)	1)CARE A-; Negative (02-Sep-20)	1)CARE A; Negative (03-Sep-19)
3	Fund-based - LT-Working capital limits	LT	250.00	CARE A+; Stable	-	1)CARE A; Stable (03-Aug-21)	1)CARE A-; Negative (02-Sep-20)	1)CARE A; Negative (03-Sep-19)
4	Non-fund-based-LT/ST	LT/ST*	110.00	CARE A+; Stable / CARE A1+	-	1)CARE A; Stable / CARE A1 (03-Aug-21)	1)CARE A-; Negative / CARE A2+ (02-Sep-20)	1)CARE A; Negative / CARE A1 (03-Sep-19)
5	Term loan-Long term	LT	564.17	CARE A+; Stable	-	1)CARE A; Stable (03-Aug-21)	1)CARE A-; Negative (02-Sep-20)	1)CARE A; Negative (03-Sep-19)
6	Fund-based - LT-Working capital limits	LT	85.00	CARE A+; Stable	-	1)CARE A; Stable (03-Aug-21)	1)CARE A-; Negative (02-Sep-20)	1)CARE A; Negative (03-Sep-19)

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	
Term loan	First Pari-passu charge on movable and immovable fixed assets with minimum FACR of 1.25x at all times.

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Working capital limits	Simple
2	Non-fund-based-LT/ST	Simple
3	Term loan-Long term	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 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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