Haldyn Glass Limited (Revised)

March 30, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Rating Action**
Bank Facilities-Fund Based	12.00 (reduced from 20.00)	CARE A-; Stable [Single A Minus; Outlook: Stable]	Reaffirmed
Bank Facilities-Non Fund Based	10.06 (reduced from 10.12)	CARE A2 [A Two]	Reaffirmed
Short Term Bank Facilities	-	-	Withdrawn*
Total Facilities	**22.06 (Rupees Twenty Two crore and Six lakh only)**		

Details of instruments/facilities in Annexure-1
**withdrawn as the facilities are fully repaid*

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of HGL continues to factor in extensive experience of the promoters, long track record of the company's operations in the glass manufacturing business with in-house mould designing capability thereby providing flexibility in manufacturing glass bottles of different design and size, long association with reputed clientele as well as comfortable financial risk profile characterized by healthy capital structure, comfortable debt coverage indicators and adequate liquidity profile.

The above rating strengths are however tempered by modest scale of operations, high revenue dependence of HGL towards liquor sector, considerable capital outlay required for periodic refurbishment of furnaces, working capital intensive nature of operations, HGL's support towards its joint venture as well as susceptibility of the profit margins to volatility in the key raw material prices. The company's scale operations were impacted from March, 2020 till June, 2020 owing to nationwide lockdown announced by Govt. of India coupled with restrictions on liquor retailers. Presently, the company has high revenue dependence on liquor sector which is expected to reduce in upcoming years.

Key rating sensitivities:

Positive factors:

- Improvement in scale of operations above Rs.500 crore coupled with improvement in profitability margins above 18% on sustained basis.

Negative factors:

- Decrease in PBILDT margin below 10% on a sustained basis
- Increase in working capital utilization resulting in overall gearing above 0.50 times on a consistent basis

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Detailed description of the key rating drivers

Key Rating Strengths

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

HGL is promoted by its founder Mr N. D. Shetty who has more than five decades of experience in the manufacturing of glass containers. Mr N. D. Shetty (Executive Chairman) and his son Mr T. N. Shetty (Managing Director) are actively involved in the day-to-day operations of the company. Furthermore, promoters of the company are assisted by well experienced professionals for managing operations of the company. Moreover, HGL benefits from long track record of Haldyn group in manufacturing of glass containers and hence has established long-term relationship with its customers as well as suppliers.

In-house mould designing and manufacturing facility

HGL has a fully equipped mould manufacturing workshop to manufacture bottle moulds of all designs and shapes along with labelling facility. Having In-house mould designing and manufacturing capability helps the company to manufacture different sized and shaped bottles for its clients in the range beginning from 1 ml to 2500 ml.

Well established clientele base

Long presence in the glass manufacturing business has helped the company to establish good relationship with the well-established and reputed clients in domestic markets belonging to different sectors like liquor manufacturing, foods and non-alcoholic beverage manufacturing as well as pharmaceutical sector. Furthermore, HGL has been able to get repeat orders from some of its key clients as it has been able to establish itself as a preferred vendor for glass containers.

Moderate operational performance

The company's revenue from operations marginally improved by ~4% to Rs.232.32 crore in FY20. The company recorded revenue from operations of Rs.132.37 crore in 9MFY21 compared to Rs.180.39 crore in previous year. The company witnessed sales loss of Rs.45-50 crore in H1FY21 owing to nationwide lockdown announced by Govt of India. The company derives major portion of its revenues from liquor industry which was part of non-essential products. Owing to several restrictions applied on wine shops and restaurants, the demand for liquor was impacted in H1FY21.

The company reported PBILDT margin of 13.22% in FY20 (P.Y. 11.95%) and 15.19% in 9MFY21. Improvement in PBILDT margins in FY20 is mainly due to improved sales realization and several cost containment measures initiated by company. The company renegotiated pricing with key customers to pass on raw materials price increase.

Financial risk profile of the company continues to be strong

Ploughing back of profits to reserves led to increase in HGL's tangible net worth from Rs. 147.49 crore as on March 31, 2019 to Rs.154.96 crore as on March 31, 2020. The overall gearing improved from 0.09 times as on March 31, 2019 to 0.02 times as on March 31, 2020 owing to improved tangible net worth coupled with low utilization of working capital limits. The company does not have any major debt funded capex plan in near future.

Furthermore, owing to low debt levels, the interest costs and finance charges have remained low. As a result, the company's debt coverage indicators continue to remain healthy as seen from total debt to Gross Cash Accruals ratio of 0.15 times and PBILDT interest coverage ratio of 31.01 times for FY20.

Key Rating Weaknesses

Sector concentration risk, although reducing

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. In FY18, company's revenue was impacted on account of change in the tax rates. Any future ban on alcoholic products may impact the company revenue. Presently, liquor sector accounts for 70% of overall revenue and balance 30% consist of FMCG, food and beverage, and cosmetics sector. 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 Rs.10.52 crores in FY20. The company caters to Africa, Nepal and Sri Lanka for exports.

Working capital intensive nature of operations

HGL provides credit period in the range of 30 days to 60 days to majority of its clients. Furthermore, the company needs to maintain inventory of about two to three months. On the other hand, the company does not enjoy longer credit period for its major suppliers. As a result, the company's operating cycle ranges between 90-120 days. The company funds its working capital requirements from internal accruals.

As on March 31, 2020, the company's average collection period increased to 82 days compared to 69 days in previous year. This is mainly due to COVID-19 situation. As a result, the operating cycle also marginally increased from 89 days in FY19 to 92 days in FY20.

Susceptibility of the profit margins to volatility in the key raw material prices

HGL's essential raw materials for manufacturing of glass containers are soda ash, broken glass cullet and limestone. Moreover, glass manufacturing is a power intensive process, with power cost forming around 20-25% of the total manufacturing cost. The company's bargaining power with the suppliers of raw material as well as power (electricity/natural gas) is limited. However, on the other hand, overcapacity in the glass manufacturing business limits pricing power for the players in the industry. Hence, passing on change in input cost becomes difficult and sometimes there might be significant lag in the price revisions.

Requirement of periodical refurbishment of furnaces involving substantial capital outlay and temporary shutdown of production

The glass container industry is highly capital intensive and needs refurbishment of the furnaces every seven-eight years, on an average. Furthermore, refurbishment of furnaces also requires temporary shutdowns thus leading to loss of production and the sales. The company has two furnaces; one of them was refurbished in 2011, its modernization has been planned for FY22 which is expected to cost around Rs.19.75 crore. The modernization cum refurbishment activity is expected to be funded entirely through internal accruals.

Exposure to JV which is still at initial stages of operations

In order to diversify its product portfolio, HGL entered into 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 Rs.83.56 crore and PAT of Rs.4.55 crore in FY20. As on March 31, 2020, the company has invested Rs.31.75 crore in the form of equity. The company does not envisage any major fund infusion in JV over medium term. The company is engaged in manufacturing premium glass containers used in cosmetic and perfumes industry. The company caters to clients based in Europe and USA. For the optimum utilization of furnace, the company plans to set up additional bottling line in HHFPL. The said capex is expected to be completed in FY22 with an outlay of Rs.30 crore. The company plans to fund 80% of the said capex through bank borrowings and balance from internal accruals. In case banks require promoters to infuse funds, HGL might have to infuse equity capital amounting Rs.7.5 crore. HGL has free cash and cash equivalents of Rs.30 crore as on February 28, 2021.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial Sector Entities
Rating Methodology-Manufacturing Companies
Policy on Withdrawal of ratings

Liquidity position: Adequate

The company's liquidity position remains adequate on account of sufficient cash accruals. The company does not have any major repayment obligations over medium term and its gross cash accruals are sufficient to fund capex of Rs.19.75 crore planned in FY22. Moreover, the free cash and cash equivalents stood at Rs.30 crore as on February 28, 2021. The company does not have any major repayment obligations over medium term and its gross cash accruals are sufficient to maintenance capex requirements over medium term.

About the Company

Incorporated in 1991, Haldyn Glass limited (formerly known as Haldyn Glass Gujarat Limited) is involved in manufacturing and marketing of glass bottles and containers. HGL is promoted by Haldyn Corporation limited which holds 53.64% in HGL as on December 31, 2020. Mr N. D. Shetty, Executive chairman of the company, has an experience of more than five decades in the glass manufacturing segment. HGL's manufacturing plant is located at Vadodara, Gujarat, and currently has a total melting capacity of 360 tons per day comprising of two Glass Melting Furnaces (200 + 160 tons per day capacity) and 8 I.S. machines for manufacturing a very wide range of containers from 1 ml to 2500 ml. The I.S. machines are capable of producing about 1.5 million high quality containers every day. Glass containers manufactured by HGL are supplied to liquor, cosmetic as well as food and beverages industry with the company deriving majority of its revenues from liquor industry.

Earlier during FY16 (refers to the period April 1 to March 31), in order to diversify its product portfolio, HGL entered into a 50:50 JV with Heinz Glass International GmbH of Germany, named as Haldyn Heinz Fine Glass Private Limited (HHFPL). As on March 31, 2020, HGL had 50% shareholding in the JV with total equity exposure amounting to Rs.31.75 crore. HHFPL is engaged in manufacturing of glass bottles used for perfumes and cosmetics. The company caters to clients based in Europe and USA.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	224.03	232.32
PBILDT	26.77	30.70
PAT	12.13	10.52
Overall gearing (times)	0.09	0.02
Interest coverage (times)	53.48	31.01

A: Audited

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	12.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	10.06	CARE A2
Non-fund-based - ST-Forward Contract	-	-	-	0.00	Withdrawn

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	12.00	CARE A-; Stable	-	1)CARE A-; Stable (24-Mar-20)	1)CARE A-; Stable (07-Mar-19)	1)CARE A-; Stable (06-Feb-18)
2.	Non-fund-based - ST-BG/LC	ST	10.06	CARE A2	-	1)CARE A2 (24-Mar-20)	1)CARE A2 (07-Mar-19)	1)CARE A2 (06-Feb-18)
3.	Non-fund-based - ST-Forward Contract	ST	-	-	-	1)CARE A2 (24-Mar-20)	1)CARE A2 (07-Mar-19)	1)CARE A2 (06-Feb-18)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple
3.	Non-fund-based - ST-Forward Contract	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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