

Hindustan Adhesives Limited (Revised)

November 30, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	82.37 (Enhanced from 80.50)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	30.50 (Enhanced from 29.50)	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	112.87 (₹ One Hundred Twelve Crore and Eighty-Seven Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Hindustan Adhesive limited (HAL) continues to drive strength from improving scale of operations marked by notable growth in export along with improved return on capital employed. The rating also derive comfort from the experienced promoters along with company's long operational track record and its long-standing relationship with reputed clients. The ratings are however constrained by average financial risk profile marked by a moderate overall gearing and debt coverage indicators. The ratings also factor in presence of large organized and unorganized players in the packaging market along with high fluctuations in the price of raw material.

Rating sensitivities

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

- Growth in scale of operations beyond Rs. 400 Cr along with improvement in ROCE above 20% on sustained basis.
- Improvement in overall gearing below 1.25x on sustained basis.

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

- Decline in scale of operations beyond Rs 200 crore with deterioration in PBILDT margin below 10% on sustained basis.
- Deterioration in capital structure with TDGCA above 3.50x on sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Improved operational performance albeit moderate profitability margins: The total operating income of the company in FY22 (refers to the period from April 01, 2021, to March 3, 2022) has stood at Rs. 453.01 Cr from Rs. 220.23 Cr in FY21 as envisaged. The increase in sale has been supported by notable growth in export by 55% to Rs. 353.97Cr in FY22 from Rs. 157.84 Cr in FY21. The consistent increase in export business is aided by commissioning of new plant in Mundra, Gujarat and capacity expansion of manufacturing of self-adhesive tapes. During H1FY23 (refers to the period from April 01 to Sep 30, 2022) company's total operating income stood at Rs.193.78 Cr. and owing to prevailing market condition and economic slowdown in Europe, the export demand is expected to be low. The PBILDT margin of the company stood at 8.18% in FY22 (PY 12.09%) as the company offered discounts to increase the sale volume. However, company's inability to completely pass on the increased freight cost and rise in input prices to end consumers led to decline in PAT margin to 2.55% in FY22 (PY 3.96%). During H1FY23 company has reported PBILDT margin of 8.16% and PAT margin of 2.53%.

Experienced promoters: HAL 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, having more than 30 years of experience 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 September 30, 2022.

Long standing relationship with reputed clients: HAL provides packaging solution to various reputed clients which have been associated with the company from last 10-15 years which includes Parle Agro Limited, Britannia Industries Limited, Nestle India Limited, ITC Limited to name a few. Apart from repeat orders from existing clientele, the company has been able to add

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

few overseas clients to its portfolio which includes Power pack LLC (a distributor based out of USA), Atlantic Caribbean, and BDG Wrap TITE among others.

Key rating weaknesses

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 reduced significantly over the last 3 years from about 31.86% in FY20 to about 24.41% in FY22 and remains exposed to raw material price fluctuation. Even though gross margin has been declining, the company was able to maintain its PBILDT margin mainly on account of reduction in its fixed overheads, including power and fuel cost, employee cost and which cumulatively reduced from 9.89% of total operating income (TOI) in FY21 to 6.64% of TOI in FY22.

Average financial risk profile: The debt coverage metrics of the company stood average marked by overall gearing of the company stood at 1.62x as on March 31, 2022 (PY 2.12x) the improvement is on account of retention of profit in the business and repayment of unsecured loan of Rs. 5.26 Cr in FY22. Debt coverage indicators has also improved with interest coverage of 4.44x for FY22 (PY 4.36X) and TDGCA stood high at 3.78x as on March 31, 2022, though improved from 4.73x as on March 31, 2021. Total Debt/ cash flow from operations stood at 3.43x as on March 31, 2022 (PY: 11.51x).

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. Increasing consumer awareness pertaining to hygiene coupled with increasing disposable income has led to rapid increase in demand for adhesive tapes in healthcare sector, thus driving the adhesive tapes market. With the presence of large number of players in the BOPP tape market unorganized sector, 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 with cash accruals of Rs 35.15 crore in FY23 against Rs 13.22 crore of Scheduled debt repayment in FY23. The operating cycle remains around 40 days for FY22 and current ratio of 1.05x as on March 31, 2022, which has remained unchanged mostly on account of high current portion of debt repayment obligation and internal accruals being utilized towards capex. The company has cash and bank balance of Rs 3.40 crore as on March 31, 2022. There is no capex envisaged in medium term as per management. The average working capital utilization remains around 75.00 for the trailing twelve months ending Oct 2022.

Analytical approach: Standalone

Applicable criteria

[Criteria on assigning 'outlook' and 'credit watch' to credit ratings](#)

[CARE's policy on default recognition](#)

[Criteria for short term instruments](#)

[Rating Methodology – Manufacturing companies](#)

[Financial Ratios – Non-financial sector](#)

[Liquidity analysis – Non-financial sector entities](#)

About the company

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 three manufacturing units; one in Uttar Pradesh (Ghaziabad), one in Uttarakhand (Roorkee) and one in Gujarat (Mundra) with a total installed capacity of 42.00 million square meter as on Sep 30, 2022. Apart from HAL, the group has another company Bagla Polifilms Limited (BPL – rated CARE BB+; Stable / CARE A4+) which started its operations in 1988. Currently, the company has three manufacturing units; one in Uttar Pradesh (Ghaziabad), one in Uttarakhand (Roorkee) and one in Gujarat (Mundra).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23
Total operating income	218.66	453.01	193.78
PBILDT	26.43	37.03	15.92
PAT	8.65	11.56	4.92
Overall gearing (times)	2.12	1.62	NA

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23
Total operating income	218.66	453.01	193.78
Interest coverage (times)	4.36	4.44	NA

A: Audited; H1FY23 (April 01, 2022 to Sep 30, 2022); NA (Not Available)

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Available

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 (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		-	-	-	42.80	CARE BBB; Stable
Fund-based - LT-External Commercial Borrowings		-	-	-	0.93	CARE BBB; Stable
Fund-based/Non-fund-based-Short Term		-	-	-	15.00	CARE A3+
Non-fund-based - ST-BG/LC		-	-	-	15.50	CARE A3+
Term Loan-Long Term		-	-	30 July 2025	38.64	CARE BBB; 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	38.64	CARE BBB; Stable	-	1)CARE BBB; Stable (23-Nov-21) 2)CARE BBB; Stable (08-Nov-21)	1)CARE BBB; Stable (29-Sep-20)	1)CARE BBB; Positive (13-Sep-19)
2	Fund-based - LT-External Commercial Borrowings	LT	0.93	CARE BBB; Stable	-	1)CARE BBB; Stable (23-Nov-21) 2)CARE BBB; Stable (08-Nov-21)	1)CARE BBB; Stable (29-Sep-20)	1)CARE BBB; Positive (13-Sep-19)
3	Fund-based - LT-Cash Credit	LT	42.80	CARE BBB; Stable	-	1)CARE BBB; Stable (23-Nov-21) 2)CARE BBB; Stable (08-Nov-21)	1)CARE BBB; Stable (29-Sep-20)	1)CARE BBB; Positive (13-Sep-19)
4	Non-fund-based - ST-BG/LC	ST	15.50	CARE A3+	-	1)CARE A3+ (23-Nov-21) 2)CARE A3+ (08-Nov-21)	1)CARE A3 (29-Sep-20)	1)CARE A3 (13-Sep-19)
5	Fund-based/Non-fund-based-Short	ST	15.00	CARE A3+	-	1)CARE A3+ (23-Nov-21)	1)CARE A3 (29-Sep-20)	1)CARE A3 (13-Sep-19)

	Term					2)CARE A3+ (08-Nov-21)		
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*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities- Not Applicable

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-External Commercial Borrowings	Simple
3	Fund-based/Non-fund-based-Short Term	Simple
4	Non-fund-based - ST-BG/LC	Simple
5	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.

Contact us

Media contact

Name: Mradul Mishra

Phone: +91-22-6754 3596

E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Sachin Mathur

Phone: +91-11-4533 3206

E-mail: sachin.mathur@careedge.in

Relationship contact

Name: Swati Agrawal

Phone: +91-11-4533 3200

E-mail: swati.agrawal@careedge.in

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