Asahi India Glass Limited (Revised)

September 02, 2020

Ratings

Facility/Instrument	Amount (Rs. crore)*	Rating[1]	Remarks
Long-term Bank Facilities	2109.99 (enhanced from 1944.80)	**CARE A-; Negative (Single A Minus; Outlook: Negative)**	**Ratings revised from CARE A; Negative (Single A; Outlook: Negative)**
Long-term/Short-term Bank Facilities	110.00 (reduced from 160)	**CARE A-; Negative / CARE A2+ (Single A Minus ; Outlook: Negative / A Two Plus)**	**Ratings revised from CARE A; Negative / CARE A1 (Single A ; Outlook: Negative / A One)**
Total facilities	**2219.99 (Rupees Two Thousand Two Hundred Nineteen crore and Ninety Nine Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Asahi India Glass Limited (AIS) factors in the deterioration in the financial and liquidity profile of the company in FY20 (refers to period April 01 to March 31) characterized by a decline in its total operating income on account of lower capacity utilization amidst a slowdown in the end user industry, higher than expected debt position and lower than envisaged cash accruals and profitability for the company. Lower profitability has in turn resulted in deterioration in AIS' coverage and return indicators in FY20 which are likely to remain subdued going forward. The financial profile remains further subdued in Q1FY21 (UA, refers to period April 01 to June 30) on account of the persistence of slowdown in the end user i.e. automobile and real estate industry and Covid-19 related demand and supply disruptions. The rating is further constrained on account of exposure of the company to foreign exchange fluctuation risk, volatility in its fuel prices and the past debt-funded capital expenditure undertaken by the company which has also resulted in the moderation of its capital structure without any incremental contribution to AIS' total operating income and delay in the commercial start date of its recently completed Gujarat Auto glass plant.

However, the ratings continue to derive strength from AIS' dominant market position, especially in the auto-glass segment, the experienced and resourceful promoter group, its established track record of operations and sustained relationships with Original Equipment Manufacturers (OEMs).

AIS has sought moratorium on some of its scheduled repayments & interest from its lenders as a part of the COVID-19 – Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. As informed to CARE, AIS has paid all the outstanding dues for the month of March 2020 and has sought moratorium for the months of April to August 2020. The Group has received the formal approval from the lenders allowing for the deferment of the payments for the aforementioned months. CARE has not recognized this instance as a Default, as the same is permitted by the RBI as part of the relief measures announced recently. The non-recognition of default for the payment of interest in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Positive sensitivity

- Ability of the company to increase its scale of operations by more than 25% from its current levels.
- Ability of the company to improve its PBILDT margins beyond 19% on a sustained basis.
- Ability to improve the capital structure marked by the overall gearing of less than 1.00x on a sustained basis

Negative sensitivity

- Decline in profitability margins as marked by PBILDT margin below 15% on a sustained basis.
- Total debt/EBITDA over 4x on a sustained basis

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

- Any further increase in debt (other than envisaged) leading to deterioration in the capital structure with overall gearing increasing from the current levels in any of the years going ahead

Outlook: Negative

The continuation of the negative outlook is on account of CARE's belief that AIS' financial profile may weaken further on account of persistence of demand weakness in the end user industries i.e. Automobile Industry and Real Estate Sector amidst the possible prolongation of the COVID-19 pandemic. With its leveraged capital structure and, high repayments in the years ahead, lower than expected operating income or profitability of the company may adversely impact its credit profile and liquidity. The outlook may be revised back to Stable, in case AIS, is able to enhance its overall operating performance and scale of operations while maintaining its capital structure and profitability margins.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and Resourceful promoter group

AIS is promoted by the AGC Inc, Japan (formerly known as Asahi Glass Co. Ltd; shareholding of 22%), Labroo family (shareholding of 21% share), and Maruti Suzuki India Ltd (MSIL; shareholding of 11%). AGC is the leading glass manufacturer of the world with 12% global market share in the float glass segment and 30% global market share in the automotive glass segment. Operations of AIS are being managed by Mr. B.M. Labroo (Chairman) who has vast experience in marketing, finance and corporate governance. Mr. Sanjay Labroo, (Managing Director) has dual degree in Finance and Management from Wharton School of Business and Finance, USA. He is 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 four sub-assembly units/ warehouses at Kadi (Gujarat), 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. Further, 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 HCVs, railways, and Earth-moving vehicles and has maintained good relationships with Original Equipment Makers (OEMs). AIS' glass offerings for the new models come with many innovative changes, such as Solar Green Glass and Acoustic PVB for Yaris, 2.8 mm Backlite for New Wagon R, among others.

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, Kia Motors, MG, Hyundai Motors India Ltd, 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 36% of automotive glass sales in FY20.

Key Rating Weaknesses

Deterioration in the financial profile of AIS and its moderate capital structure

Total operating Income of the company had declined from ~Rs. 2864 crore in FY19 to Rs. 2603.45 crore in FY20 which represents de-growth of 9% on Y-o-Y with sales declining in both the auto glass and the float glass segments. The primary reason for decline in sales on y-o-y basis is the overall slowdown in the automotive and real estate sectors, aggravated by the breakout of COVID-19 towards the end of FY20.

The PBILDT Margin of the company has also declined from 18.35% in FY19 to 17.38% in FY20 on account of pressure on sales margin with not so favorable end user industry and the margin was also impacted due to lockdown in March 2020 as the company incurred all operational expenses but was unable to generate sales. Despite the slowdown in FY20, the company's ability to pass on the raw material prices to OEM's and other cost reduction efforts initiatives, have somewhat restricted the impact on the profitability margin. Recent capex, resulted in higher interest cost and depreciation and had some impact at the PBT margin level but the revaluation of deferred tax liability write-back has supported the company at net margin level which was 6.1% in FY20 declined marginally from 6.6% in FY19. During Q1FY21, financials performance of the company was subdued on account of nationwide lockdown imposed during the period and the subsequent impact that Covid-19 had on the entire economy resulting in further sluggishness in the end user industries. Nonetheless, the company's sales volumes gradually picked up month on month in May and June 2020 with the easing of the lockdown restrictions & company was able to sell gradually. The company reported total operating income of Rs.223.90 in Q1FY21 registering a de-growth of around 68% in comparison with Q1FY20. The GCA for Q1FY21 stood at Rs (-)27.90 crore as compared to GCA of Rs.71.73 in Q1FY20. The decline in the cash accruals for Q1FY21 is also attributable to the expenses which have to be continuously incurred relating to the operations of the furnaces for the float glass segment.

Total Debt of the company stood at Rs. 1782.61 crore as on March 31, 2020 (Rs. 1694.18 crore as on March 31, 2019). Further, Company had availed additional debt in FY20 for its recently completed capex and also for meeting its working capital requirements.

Overall Gearing of the company stood at 1.36x as on March 31, 2020 (1.40x as on March 31, 2019). Total debt to GCA stood at 6.73x as on March 31, 2020 increased from 4.95x as on March 31, 2019 due to the total debt increasing & decline in its overall profitability in FY20 owing to lower sales. A further debt to the extent of Rs 150 crore has been sanctioned by the company in FY21. With its leveraged capital structure and high repayments in the medium term, lower than expected operating income or profitability of the company may adversely impact its credit profile and liquidity and hence shall remain key monitorables going forward.

Stretched Liquidity

The liquidity profile of the company has deteriorated in FY20 owing to lower than expected cash accruals on account of the sluggish market further aggravated by the breakout of Covid-19. Further due to the ongoing slowdown in auto & real estate segment, the cash accruals in the short term is expected to register a de-growth with the company reporting negative gross cash accruals in Q1FY21 of Rs.27.90 crore. Further, the company has opted for moratorium on some of the loans & interest from April 2020 till August 2020; however the company fully paid its debt obligations that were due in March 2020. The current ratio of the company stood at 0.94x as on March 31, 2020 & the same is low on account of high amount of current maturities of long term debt. The company has high repayment obligation in the medium term with Rs.329 crore due in FY21. AIS has cash and cash equivalents of Rs.58.25 crore as on June 30, 2020. The average fund based utilization for 12 months period ending on June 30, 2020 stood at 57.37% which provides some buffer with AIS to fund its working capital requirements. Further, the company has received sanction for a term loan for Rs 150 crore which shall help in making the high repayments in FY21 while the balance are expected to be funded through cash accruals and un-utilized credit lines available with the company. The company has additional sanctioned unutilized unsecured WCDL limits. This will further meet any immediate requirement of additional funds at the time of any unforeseen event. The overall operating cycle stood at 79 days as on March 31, 2020 as against 70 days as on March 31, 2019. The stretch in the operating cycle is primarily on account of increase in inventory days as on March 31, 2020 owing to the nationwide lockdown leading to supply chain disruptions.

Exposure to foreign exchange fluctuation risk

The Company is exposed to the risks associated with volatility in foreign exchange rates mainly on account of import of raw materials, stores & spares and foreign currency loan payments. The net exposure of the company in foreign currency stood at Rs. 566.52 crore as on March 31, 2020 (Rs. 569.58 crore as on March 31, 2019). However, the foreign currency loan of the company is fully hedged (company has entered into CIRS (Currency Interest Rate Swap) against any rupee vs dollar movement in the future.

Volatility in Fuel Cost of the company

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 has decreased from Rs. 454.24 crore (which is 15.86% of total operating income and 19.43% of total cost of sales) in FY19 to Rs. 396.27 crore (which is 15.22% of total operating income and 18.42% of total cost of sales) in FY20 on account of shutdown of operation for 10 days in March 2020.

Further, the prices of crude oil remains volatile over the past few years and any upward movement in the crude oil prices can keep the operating margins of the company under pressure and have a negative impact on the profitability margins of the company. However, the impact of the crude oil is likely to be limited in FY21, given a benign price environment.

Further, the company is now in a position to change the fuel mix as per the fuel’s respective prevailing prices to enable optimum savings in the fuel cost after upgrading its facilities to allow use of furnace oil and/or natural gas as fuel.

Subdued demand outlook for the end-user industries

The automobiles sector was already grappling with soft consumer demand in FY20. Additionally, the strict enforcement of Government rules to adopt new emission standards led to OEMs hiking their product prices and further deferred consumers’ purchases. In FY20, the industry sales witnessed a sharp decline of 14.8% y-o-y vis-à-vis a growth of about 6.4% witnessed during FY19 led by factors such as increased insurance costs, uneven monsoon, high ownership costs, curtailed lending by the NBFC segment, weak festival demand, weak consumer sentiments and the spread of Covid-19 in the country. Overall auto production witnessed a decline of about 14.7% y-o-y during FY20 period vis-à-vis a growth of about 6.3% during the corresponding period previous year. Many major manufacturers (OEMs) continued to slash the production between April – December 2019 period owing to declining sales and large inventories of roughly about 30-45 days with dealers and wholesalers, along with the upcoming shift to the new BS-VI standards from April 1, 2020. During January – March 2020, while the inventory was at the normal level, demand continued to decline forcing the OEMs to cut production. Commercial vehicles sales declined sharply by about 30% during the year with Medium and Heavy Commercial Vehicles (M&HCVs) sales declining by about 43% and Light Commercial Vehicles (LCVs) sales by about 21% y-o-y. The nationwide lockdown has also impacted the freight demand leaving the transporters with a significant drop in revenues. Passenger vehicles segment witnessed a decline of 14.8% y-o-y in sales during FY20. Against this backdrop of an existing slowdown environment, the outbreak of Covid-19 in mid-March 2020 added to the woes of this industry. The pandemic caused disruptions in supply chains and brought manufacturing activity to a halt for nearly 30 to 45 days. Due to the multiple lockdowns, various OEMs, ancillaries and dealers located in containment zones, witnessed near nil activity in April and few days of May 2020.

On a month on month basis automobile sales have reported growth in FY21 but in FY21 (April-July), automobile sales witnessed the sharpest decline of 77% y-o-y in the last 5 years on back of nationwide lockdown, price hikes in passenger vehicles due to new safety norms starting April 1, 2019, higher insurance costs, higher ownership costs, liquidity crisis in the NBFC sector, increased load carrying capacity for M&HCVs that led to high inventories at retail (dealers) level causing slow movement in wholesale movement of vehicles. Further, consumer sentiments have remained low since the past 4-5 quarters now, which is evident in the falling automobile sales numbers of commercial vehicles, passenger vehicles and 2 & 3 wheelers, where the latter performed marginally better than the former two. Short term outlook for the overall automobile sector remains gloomy. Improvement in consumer demand and reaching pre-Covid level of sales is unlikely until Q3-FY21, which marks the onset of festive season in India. In FY21, tractors, two-wheelers and passenger vehicles segments are expected to witness faster recovery in demand compared with three-wheelers and commercial vehicles.

With the nationwide lockdown imposed in India during mid-March 2020 to combat Covid-19 pandemic, the construction work in the country came to a standstill, triggering concerns on the revenues visibility and profitability of the construction and real estate and allied industry companies. The likely muted order inflows, exposure to certain states, reverse migration of labor, disruption of supply chains and sluggish loan disbursements and sanction of additional limits due to funding woes of the banking sector and the overall fragile economic scenario are the key hindrances for the construction and real estate sector going forward. Further domestic float glass industry was grappling with the domination of low cost imports from Malaysia as a results companies had to realign their prices or were losing their share to the imports. Since float glass production is a continuous process, and therefore, the Domestic Industry has no choice but to continuously produce the float glass despite poor off-take in the market adding to their financial stress. However, recently, the Directorate General of Trade Remedies has recommended imposition of anti-dumping duty on clear float glass from Malaysia. With the imposition of the anti-dumping duty the market players which have a significant market share in float glass will have a positive impact. Though the end user industry is still slow & the demand will gradually pick still with the ADD being imposed, the damage on account of COVID & high imports will be mitigated to some extent. With the settling of the economy post COVID impact, growing environmental awareness shall boost the demand for high performance glass used across segments, with all customers, developers, architects, consultants seeking energy saving products and replacing artificial light in offices and residential complexes with glass that brings in sunlight.

Analytical Approach: Standalone. The rating however factors in the strong business linkages & parentage of Asahi Glass Co. limited (22%) and Maruti Suzuki India limited (11%).

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial Ratios - Non-Financial Sector
Rating Methodology - Manufacturing Companies
Rating Methodology- Auto Ancillary Companies
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial sector entities

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 changing its name to Asahi India Glass limited (AIS) in September 2002.
AIS is promoted by Labroo family (21%), Asahi Glass Company Limited, Japan (AGC; 22%) and Maruti Suzuki India Limited (MSIL; 11%). Mr. Sanjay Labroo, (Managing Director) was one of the Directors on Central Board of RBI (2007-11). 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 59% and 41% respectively in FY20 (61% and 39% respectively in FY19). AIS is market leader in Glass and Glass Products segment in India with 75% market share in Automotive Glass segment (Indian Passenger Car Glass Segment) and 24% market share in Float Glass Segment.
As on March 31, 2020, total installed capacity stood at 12.02 million square metres for tempered glass, 6.00 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 (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2863.83	2603.45
PBILDT	525.60	452.41
PAT	190.07	159.91
Overall gearing (times)	1.40	1.36
Interest coverage (times)	3.91	3.14

A: Audited

Status of non-cooperation with previous CRA: NA

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
Term Loan-Long Term	-	-	Oct 2027	546.84	CARE A-; Negative
Fund-based - LT-Working Capital Limits	-	-	-	525.00	CARE A-; Negative
Fund-based - LT-Working Capital Limits	-	-	-	170.00	CARE A-; Negative
Non-fund-based-LT/ST	-	-	-	110.00	CARE A-; Negative / CARE A2+
Term Loan-Long Term	-	-	Oct 2027	698.15	CARE A-; Negative
Fund-based - LT-Working Capital Limits	-	-	-	170.00	CARE A-; Negative

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.	Term Loan-Long Term	LT	546.84	CARE A-; Negative	-	1)CARE A; Negative (03-Sep-19)	1)CARE A; Stable (17-Aug-18)	1)CARE A-; Stable (08-Sep-17) 2)CARE BBB+; Stable (05-May-17)
2.	Fund-based - LT-Working Capital Limits	LT	525.00	CARE A-; Negative	-	1)CARE A; Negative (03-Sep-19)	1)CARE A; Stable (17-Aug-18)	1)CARE A-; Stable (08-Sep-17) 2)CARE BBB+; Stable (05-May-17)
3.	Fund-based - LT-Working Capital Limits	LT	170.00	CARE A-; Negative	-	1)CARE A; Negative (03-Sep-19)	1)CARE A; Stable (17-Aug-18)	1)CARE A-; Stable (08-Sep-17) 2)CARE BBB+; Stable (05-May-17)
4.	Non-fund-based-LT/ST	LT/ST	110.00	CARE A-; Negative / CARE A2+	-	1)CARE A; Negative / CARE A1 (03-Sep-19)	1)CARE A; Stable / CARE A1 (17-Aug-18)	1)CARE A-; Stable / CARE A2 (08-Sep-17) 2)CARE BBB+; Stable / CARE A3+ (05-May-17)
5.	Term Loan-Long Term	LT	698.15	CARE A-; Negative	-	1)CARE A; Negative (03-Sep-19)	1)CARE A; Stable (17-Aug-18)	1)CARE A-; Stable (08-Sep-17) 2)CARE BBB+; Stable (05-May-17)

6.	Fund-based - LT-Working Capital Limits	LT	170.00	CARE A-; Negative	-	1)CARE A; Negative (03-Sep-19)	1)CARE A; Stable (17-Aug-18)	1)CARE A-; Stable (08-Sep-17) 2)CARE BBB+; Stable (05-May-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / 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 the Instrument	Complexity Level
1.	Fund-based - LT-Working Capital Limits	Simple
2.	Non-fund-based-LT/ST	Simple
3.	Term Loan-Long Term	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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