Asahi India Glass Limited

September 03, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	1944.80 (enhanced from Rs. 1864.80 crore)	**CARE A; Negative (Single A; Outlook: Negative)**	**Reaffirmed and Outlook revised**
Long-term/Short-term Bank Facilities	160.00 (enhanced from Rs. 85.00 crore)	**CARE A; Negative /CARE A1 (Single A; Outlook: Negative /A One)**	**Reaffirmed and Outlook revised**
Total	**2104.80 (Rupees Two Thousand One Hundred Four crore and Eighty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Asahi India Glass Limited (AIS), factors in the growth in its scale of operations and stable profitability in FY19 (refers to period April 01 to March 31). Further, the ratings continue to derive strength by 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). The rating also factors in the improved operational performance of the company with increased installed capacity after the successful completion of its capex at Taloja Plant.

These rating strengths are, however, partially offset by the exposure of the company to foreign exchange fluctuation risk, volatility in its fuel prices and the on-going debt-funded capital expenditure undertaken by the company, which also resulted in moderation of its capital structure. The rating is also constrained on account of subdued demand outlook for the end-user industries i.e. automobile and real estate in the near to medium term.

Going forward, AIS's ability to maintain the profitable growth without any adverse impact on its capital structure, effective management of forex risk and volatility in fuel prices and successful implementation of the planned capex within envisaged cost and time, would be the key rating sensitivities.

Outlook: Negative

The Outlook for the long term facilities of AIS has been revised from Stable to Negative on account of expected deterioration in the financial risk profile of the company due to slow down in the end user industries i.e. Automobile Industry and Real Estate Sector. Output of most varieties of glass is expected to remain under pressure in FY20, which shall be impacted by main user industries including real estate, automobiles, which can hamper the financial risk profile of the company. The ratings may be revised downwards if the increase in borrowings is more than envisaged or the credit profile including the profitability and scale of operations of the company gets affected due to the continued slowdown in the end user industries. The outlook may be revised to 'Stable' if the company is able to sustain its growing 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 Asahi Glass Co Ltd (AGC; 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, Mitsubishi 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 three more

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

manufacturing facility at Roorkee (Uttarakhand), Chennai (Tamil Nadu) and Taloja (Maharashtra) and three sub-assembly units/ warehouses at Halol (Gujarat), Pune (Maharashtra) and Bangalore (Karnataka). 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). During FY19, AIS started supplying its products to several new models of vehicles. These included New Ertiga & New Wagon R (MSIL), Civic (Honda), Yaris (TKM), Marazzo & TUV300 + (M&M). AIS's 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 produces 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, 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 33% of automotive glass sales in FY19.

Sustained operational performance
In FY19, AIS has reported a healthy growth rate of 10.25% in the total operating income which stood at Rs.2863.83 crore as against Rs. 2597.67 crore in FY18 on account of the increase in production capacity of the company as the company has done successful completion of Capex at Taloja Plant in December, 2017, which resulted in increase in production capacity.
Despite increase in capacity, the utilization of float glass segment has improved from 96% in FY18 to 98% in FY19. However, with subdued demand in auto sector, utilization of tempered glass segment has gone down to 73% in FY19 from 79% in FY18. Revenue contribution from auto glass segment stood at 61% in FY19 as against 65% in FY18. Sales from float glass segment has increased from Rs. 893 crore in FY18 to Rs. 1124 crore in FY19 after increase in installed capacity and capacity utilization of float glass.
The PBIT Margins of Auto Glass segment have improved during FY19 while the PBIT Margin for Float Glass Segment has declined during FY19 on account of increased oil prices in FY19 (energy cost constitutes around 30% of cost of production for float glass segment).

Consistent Improvement in Financial performance
The total operating income of the company has continuously grown to Rs. 2863.83 crore in FY19 from Rs. 2172.25 crore in FY16; at a CAGR (cumulative annual growth rate) of 9.65%; on account of increase in production capacity of the company in both Float Glass and Automotive Glass Segment and high sales realization in Automotive Glass Segment (for both tempered glass and laminated glass). The operational performance of the company has improved in FY19 with increased production, sales quantity for the company, however, energy cost of the company has increased sharply from Rs. 326.55 crore in FY18 to Rs. 454.24 crore in FY19 (from 12.57% of total operating income in FY18 to 15.86% in FY19), on account of high crude oil prices in FY19, which has resulted in slight decline in PBILDT Margin of the company from 18.62% in FY18 to 18.35% in FY19. Although, company is having good relationships with its well renowned customers and as AIS is the market leader in automotive segment, the company was successfully able to pass the increased cost of raw materials of automotive glass to its customers. GCA of the company had also grown continuously from Rs. 256.89 crore in FY16 to Rs. 342.10 crore in FY19.
Interest cost of the company has increased during FY19 with increased debt and also with increasing gross block, depreciation of the company has increased from Rs. 91.78 crore in FY18 to Rs. 115.26 crore in FY19. This has resulted in decline in PAT Margin of the company from 7.14% in FY18 to 6.64% in FY19.
Further, Total Operating Income of the company slightly moderated to Rs. 699.73 crore in Q1FY20 from Rs. 731.54 crore in Q1FY19 due to subdued Auto sector resulting in decline in auto segment sales. Revenue from auto glass sales of the company declined from Rs. 456 crore in Q1FY19 to Rs. 411 crore in Q1FY20. PAT of the company stood at Rs. 40.14 crore in Q1FY20 at a PAT Margin of 5.74% as against PAT of Rs. 45.47 crore in Q1FY19 at a PAT Margin of 6.22%

Moderately leveraged Capital Structure with Ongoing Capex
Total debt of the company, continued to remain high and increased to Rs. 1761.74 crore as on March 31, 2019 from Rs. 1425.62 crore as on March 31, 2018 given the investments done by the company for increasing its production capacity by enhancing the already installed capacity and also addition of new capacities (new plant at Gujarat) in both auto and float glass segment. The tangible net worth of the company has also increased from Rs. 1105.65 crore in FY18 to Rs. 1244.31 crore in FY19 with accretion of the profits to the networth. Net Fixed Assets of the company has increased from Rs. 1962.43 crore as on March 31, 2018 to Rs. 2347.29 crore as on March 31, 2019. Fixed Assets (including CWIP) of the company has increased by Rs. 500 crore during FY19 with major addition corresponds to increase in CWIP with ongoing capex in Gujarat. As a result of capex, Overall gearing of the company increased to 1.42x as on March 31, 2019 from 1.29x as on March 31, 2018. Total debt to Gross Cash Accruals (GCA) ratio also slightly deteriorated to 5.15 times as on March 31, 2019 from 4.54 times as on March 31, 2018. Interest Coverage Ratio of the company remains at similar level of FY18 (3.93x) and stood at 3.91x in FY19.
Going forward, more than envisaged increase in the debt position of the company due to cost overrun or delay in the ongoing capex can hamper the financial risk profile of the company and is the key rating sensitivity.

Moderate Liquidity
The liquidity position of the company remains moderately comfortable with sufficient working capital unutilized limits. The average utilization of secured working capital borrowings of the company for the past 12 months period ending March 2019 remains comfortable and stood at 49.02%. The company also has sanctioned unsecured cc limit of Rs. 455.00 crore and sanctioned LC/BG limits of Rs.345.41 crore.
Cash and Cash equivalents of the company stood at Rs. 20.75 crore as on March 31, 2019 (Rs. 16.55 crore as on March 31, 2018). Company has Rs. 34.69 crore of investments in subsidiaries and associates as on March 31, 2019 (Rs. 34.67 crore as on March 31, 2019) and Rs. 10.57 crore of investments in other companies; out of which Rs. 5.18 crore of investments are quoted investments (Rs.11.71 crore of investments as on March 31, 2018, out of which Rs. 6.49 crore of investments are quoted investments). Further, company has the outstanding long term loan obligations of Rs. 219.19 crore to be repaid during FY20.

Key Rating Weaknesses

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 raw materials, stores & spares and foreign currency loan payments.The net exposure of the company in foreign currency stood at Rs. 569.58 crore as on March 31, 2019 (Rs. 548.76 crore as on March 31, 2018). However, the foreign currency loan of the company is hedged (company has entered into CIRS (Currency Interest Rate Swap) against any rupee vs dollar movement in the future.
Further, AIS reported net loss on foreign currency fluctuation of Rs. 13.54 crore in FY19 (gain on foreign currency fluctuation of Rs. 3.75 crore in FY18 and gain of Rs. 18.05 crore in FY17).

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 increased from Rs. 326.55 crore (which is 12.57% of total operating income and 15.45% of total cost of sales) in FY18 to Rs. 454.24 crore (which is 15.86% of total operating income and 19.43% of total cost of sales) in FY19 on account of high prices of the crude oil during FY19. Also, FY19 was the first full year of operations of Taloja Plant (which manufactures float glass and commenced its operations in December 2017) and the composition of float glass of the company had increased from 34% in FY18 to 39% in FY19. Further, float glass segment is more power consuming as compared to auto glass. This has resulted in increase in power and Fuel cost as a percentage of total operating income. The power and fuel cost of the Taloja plant had increased from Rs. 40 crore in FY18 to Rs. 122 crore in FY19.
The prices of crude oil have remained volatile over the past years and any upward movement in the crude oil prices can keep the operating margins of the company under pressure and can have a negative impact on the profitability margins of the company. However, 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 in the near term
Output of most varieties of glass is expected to remain under pressure in FY20, which shall be impacted by main user industries including real estate, automobiles. The real estate industry has built up inventory in the past few months and the recent liquidity stress in NBFCs has affected their lending to this industry, which has affected project completion and impacted the demand for glass sheet.

In FY20 (April-July), automobile sales witnessed the sharpest decline of 13.1% y-o-y in the last 5 years on back of 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. With inventory levels as high as 30-45 days (20 - 30 days considered normal) for major OEMs, most of the major players had announced plant shut downs between 5-20 days during May – June 2019. Also, de-stocking is considered to be a normal phenomenon in the auto industry in case of weak demand. This decline is expected to put pressure on the overall sales for the year and restrict the growth going forward. Also, with government's deadline for all existing PVs and two wheeler models to comply with new safety norms starting April 1, 2019, the overall industry production has slowed down.
However,for real estate sector, 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. Increase in urbanization, strong housing demand, thrust towards affordable housings, impact of regulatory norms/codes, use of higher value-added glass in everyday's life will ensure healthy growth of architectural glass market in future.

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
CARE's Methodology for manufacturing companies
CARE's methodology for financial ratios (Non-Financial Sector)
CARE's methodology for 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 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 around 60% and 39% respectively in FY19 (around 65% and 35% respectively in FY18). AIS is market leader in Glass and Glass Products segment in India with 77% market share in Automotive Glass segment (Indian Passenger Car Glass Segment) and 24% market share in Float Glass Segment.
As on March 31, 2019, total installed capacity stood at 12.02 million square metres for tempered glass, 5.94 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, and Maharashtra with an upcoming unit in Gujarat.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2597.67	2863.83
PBILDT	483.62	525.60
PAT	185.35	190.07
Overall gearing (times)	1.29	1.42
Interest coverage (times)	3.93	3.91

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
Term Loan-Long Term	-	-	Sep, 2027	511.15	CARE A; Negative
Fund-based - LT-Working Capital Limits	-	-	-	444.50	CARE A; Negative
Fund-based - LT-Working Capital Limits	-	-	-	160.00	CARE A; Negative
Non-fund-based-LT/ST	-	-	-	160.00	CARE A; Negative / CARE A1
Term Loan-Long Term	-	-	Sep, 2027	646.15	CARE A; Negative
Fund-based - LT-Working Capital Limits	-	-	-	183.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	511.15	CARE A; Negative	-	1)CARE A; Stable (17-Aug-18)	1)CARE A-; Stable (08-Sep-17) 2)CARE BBB+; Stable (05-May-17)	1)CARE BBB (29-Jul-16)
2.	Fund-based - LT-Working Capital Limits	LT	444.50	CARE A; Negative	-	1)CARE A; Stable (17-Aug-18)	1)CARE A-; Stable (08-Sep-17) 2)CARE BBB+; Stable (05-May-17)	1)CARE BBB (29-Jul-16)
3.	Fund-based - LT-Working Capital Limits	LT	160.00	CARE A; Negative	-	1)CARE A; Stable (17-Aug-18)	1)CARE A-; Stable (08-Sep-17) 2)CARE BBB+; Stable (05-May-17)	1)CARE BBB (29-Jul-16)
4.	Non-fund-based-LT/ST	LT/ST	160.00	CARE A; Negative / CARE A1	-	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)	1)CARE BBB / CARE A3 (29-Jul-16)
5.	Term Loan-Long Term	LT	646.15	CARE A; Negative	-	1)CARE A; Stable	1)CARE A-; Stable	1)CARE BBB (29-Jul-16)

						(17-Aug-18)	(08-Sep-17) 2)CARE BBB+; Stable (05-May-17)	
6.	Fund-based - LT-Working Capital Limits	LT	183.00	CARE A; Negative	-	1)CARE A; Stable (17-Aug-18)	1)CARE A-; Stable (08-Sep-17) 2)CARE BBB+; Stable (05-May-17)	1)CARE BBB (29-Jul-16)

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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