Haldyn Glass Limited

February 06, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Bank Facilities-Fund Based (Cash Credit)	20.30	**CARE A-; Stable [Single A Minus; Outlook: Stable]**	Revised from CARE BBB+; Stable [Triple B Plus; Outlook: Stable]
Bank Facilities-Non Fund Based (Non Fund Based)	11.06	**CARE A2 [A Two]**	Reaffirmed
Total Facilities	**31.36 (Rs. Thirty one crore and thirty six lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long term ratings assigned to the bank facilities of Haldyn Glass Limited (HGL) factors in improvement in the financial risk profile of the company characterized by growth in revenues, healthy operating profit margins, comfortable capital structure and debt coverage indicators along with healthy liquidity position in FY17 (refers to the period from April 01 to March 31)

The ratings continue to factor in long standing relation with established and reputed client base, rich experience of the promoters and long track record of the group in glass manufacturing business, and in-house mould designing and manufacturing facility of the company providing flexibility to the company to cater to different size requirements of its clients.

The rating strengths, however, are tempered by HGL's modest scale of operations, high revenue concentration from liquor sector, working capital intensive nature of operations, its support to its JV by way of investment in equities and susceptibility of profitability margins due to change in price of raw materials and fuel prices. The ratings also factor in requirement of periodical refurbishment of furnaces involving substantial outlay and temporary shutdown of production.

Going forward, HGL's ability to successfully increase scale of operations through product and client segment diversification, while maintaining profitability margins, capital structure and liquidity position on the back of effective management of working capital cycle amidst increasing competition, will be the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Rich experience of the promoters coupled with long track record of the Haldyn group in the glass container manufacturing business

HGL is promoted by its founder Mr N. D. Shetty who has experience of more than five decades 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

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

Haldyn group into 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 mould of all designs and shapes along with labelling facility. Having In-house mould designing and manufacturing capability helps the company to meet different bottles size and shapes requirements for its clients in the range beginning from 10ml to 1000 ml. Furthermore, the company procures the packaging materials of the glass containers such as corrugated boxes as well as plastic films for shrink wrapping primarily from its promoter group company "HCL". Sourcing of packaging materials from the group company ensures timely availability of the materials for meeting its packaging needs.

Long standing relationship with established and reputed client 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 such as 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 container manufacturing.

Growth in revenues and healthy operating profit margins

Over the period FY15 to FY17 the company's total operating income increased at CAGR of 4.78% to Rs.174.41 crore in FY17 from Rs.158.85 crore in FY15. Further, the total operating income growth was 21.32% in FY17 on y-o-y basis owing to increase in exports. Sales from exports have risen from Rs.0.54 crore during FY15 to Rs.22.42 crore during FY17. In H1FY18, HGL's total operating income was at Rs.80.48 crore as compared to Rs.86.71 crore reported in H1FY17. The decline in revenues during H1FY18 was marginally owing to slowdown in liquor sector which has been hit by ban on sale of liquors near vicinity of highway. However, increase in exports to Rs.14.18 crore during H1FY18 has also helped the company to limit the effect of slowdown during the period under review.

During period FY15 to FY17 HGL's PBILDT increased by CAGR of 1.37% to Rs.30.46 crore in FY17 as compared to Rs.19.64 crore in FY15. The PBILDT margins have remained healthy at 17.46% in FY17 as compared to 14.49% owing to savings in power cost owing to decline in natural gas price as well as electricity cost.

Higher PBILDT coupled with lower interest and higher depreciation has led to better PAT margins which stood at 7.10% as compared to 4.64% in FY16. This has led towards generation of healthy gross cash accruals of Rs.25.60 crore in FY17 as compared to Rs.17.01 crore in FY16.

Comfortable capital structure and debt coverage indicators along with healthy liquidity position

HGL's financial risk profile is further improved as marked by comfortable capital structure and healthy liquidity position due to low reliance on external borrowings to finance its working capital cycle as well as capacity expansions. The company generated healthy GCA of Rs.25.60 crore in FY17 which helped HGL to reduce its working capital borrowings from Rs.17.79 crore as on March 31, 2016 to Rs.1.33 crore as on March 31, 2017. For the year ending March 31, 2017 HGL had negligible long term debt of Rs.0.25 crore in the form of vehicle loan. Furthermore, plough back of the profit generated over the years has led to sizeable tangible net-worth for the company. The capital structure of the company, as indicated by overall gearing and total debt to GCA indicators improved further to 0.01 times and 0.06 times as on March

31, 2017 from 0.18 times and 1.06 times as on March 31, 2016 respectively. Further, interest coverage ratio also improved and remained healthy at 22.47x in FY17 as compared to 16.63x in FY16. Reduction in short term working capital borrowings has also led to improvement in HGL's liquidity position with current ratio at 2.80 times and quick ratio at 1.47 times as on March 31, 2017 as against 1.43 times and 0.77 times as on March 31, 2016 respectively. Moreover, for the twelve months ending September 30, 2017 HGL's utilization of working capital limits was low at 7.96% providing enough buffer to the company to raise funds in case of any exigency.

Key Rating Weaknesses

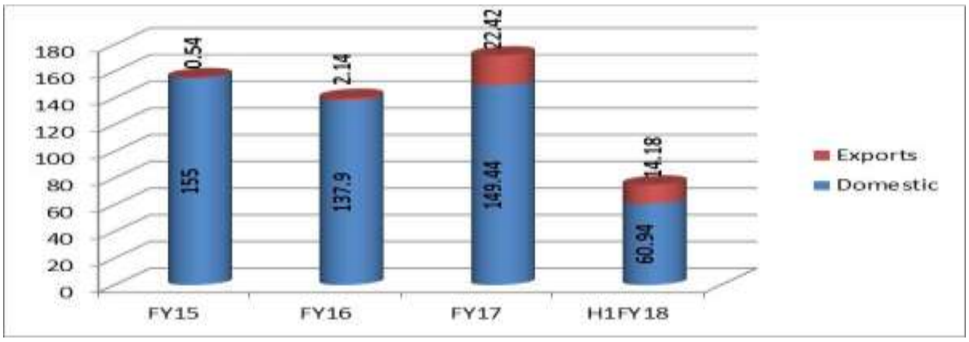
Modest scale of operations

With total installed manufacturing capacity of 1,29,000 MTPA and gross sales of Rs.189.14 crore as on March 31, 2017, HGL's scale of operations are relatively modest in the glass container manufacturing industry. Presence of large number of organized as well as unorganized players in the industry may put pressure on pricing power for the company and hence the profitability margins.

High revenue concentration from liquor sector

HGL continues to derive more than 70% of its total revenue from liquor segment, which exposes the company to sector concentration risk. Furthermore, ban on sale of liquor near highways has affected liquor sales and hence the revenues of HGL. During H1FY18, HGL's total operating income declined 7.18% y-o-y to Rs.80.48 crore as compared to Rs.86.71 crore earned in H1FY17. Liquor sector also faces risk of ban from various state governments which may also adversely affect company's revenue. However, in order to diversify its revenue source the company has added some clients form non-alcoholic sectors which may reduce its reliance on alcoholic sector up-to a certain extent. HGL has also been working towards increasing its export sales as visible from exports sales which grew from Rs.0.54 crore in FY15 to Rs.22.42 crore in FY17.

<u>Gross Revenues (in Rs. Crores)</u>



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

The glass container industry is highly capital intensive and needs refurbishment of the furnaces in a cycle of every seven-eight years, on an average. Furthermore, refurbishment of plants also requires temporary shutdowns thus leading to loss of production and the sales.In FY16, the company undertook refurbishment of one of its furnaces which led to 9.36% in decline in gross sales of the company. The company has two furnaces and the other furnace was modernized in 2010 and hence may require refurbishing in a couple of years.

Increasing exposure to JV which is still in nascent stage

Earlier during FY16 (refers to the period April 1 to March 31), the company entered into a JV with Heinz Glass International GmbH of Germany, infusing 50% equity into the same, the JV being named as "Haldyn Heinz Fine Glass Private Limited (HHFPL)". Furthermore, as on December 31, 2017 the company had invested Rs.27.50 crore and has started its commercial operations in October 2017 in As the JV has just commenced commercial operations, the ability of HHFPL to generate necessary revenues would be critical to turn profitable. Thus, going forward, any substantial support to its JV resulting in weakening of the credit profile of the company is a key rating monitorable.

Working capital intensive nature of operations

HGL provides credit period in the range of 30 days to 60 days to majority of its clients. Further, the company needs to maintain inventories of about two to three months. On the other hand, in order to get better pricing, the company buys soda ash (one of major raw material) by paying within 7 days which results in low creditor period for the company. As on March 31, 2017 the company's average working capital cycle was at 107 days which increased marginally from 100 days as on March 31, 2016. However, the company funds majority of its working capital requirements through internal accruals and as on March 31, 2017 the company had low working capital borrowings of Rs.1.33 crore rupees.

Susceptibility of profitability margins due to change in the price of raw materials and fuel prices

HGL's essential raw materials for manufacturing of glass containers are soda ash, broken glass cullet & limestone. Volatility in raw material prices may affect the profitability margins of the company. However, the pries of its key raw material soda ash has remained range bound over last two years. Apart from the above mentioned raw materials, natural gas and electricity consumption forms another key component in manufacturing operations. Currently gas supply is under the administrative pricing mechanism (APM), wherein national oil companies are supplying gas at APM rates which are at subsidized cost as compared with the market rates. However, decrease in quantity of natural gas supplied by GAIL and ONGC has led to increased use of purchased electricity. As the electricity purchased has comparatively higher cost as compared to internal generation, the proportion of power and fuel cost increased from 20.20% of total cost of sales in FY13 to 26.19% of total cost of sales in FY16. Nonetheless, in FY17 decline in natural gas price as well as electricity cost resulted in decrease in power and fuel cost to Rs.28.29 crore (P.Y:Rs.32.19 crore) forming 19.65% of total cost of sales. Hence, HGL's ability to pass on the any increase in raw material prices as well as power and fuel cost (in case administrative pricing mechanism is withdrawn) to the customers thereby maintaining its profitability margins will remain a key rating sensitivities.

Analytical approach: Standalone.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Rating Methodology-Manufacturing Companies

Financial ratios – Non-Financial Sector

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 49.44% in HGL. Mr N D Shetty, Executive chairman of the company, has very rich 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 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 10 ml to 1000 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 and 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), the company entered into a JV with Heinz Glass International GmbH of Germany, infusing 50% equity into the same, the JV being named as "Haldyn Heinz Fine Glass Private Limited (HHFPL)".

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	143.76	174.41
PBILDT	20.83	30.46
PAT	6.66	12.39
Overall gearing (times)	0.15	0.01
Interest coverage (times)	16.63	22.47

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

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.*

Analyst Contact:

Name: Mr Vikash Agarwal
Tel: 022- 6754 3405
Email: Vikash.agarwal@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	20.30	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	11.00	CARE A2
Non-fund-based - ST-Forward Contract	-	-	-	0.06	CARE A2

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	20.30	CARE A-; Stable	-	1)CARE BBB+; Stable (30-Dec-16)	-	-
2.	Non-fund-based - ST-BG/LC	ST	11.00	CARE A2	-	1)CARE A2 (30-Dec-16)	-	-
3.	Non-fund-based - ST-Forward Contract	ST	0.06	CARE A2	-	1)CARE A2 (30-Dec-16)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691