Haldyn Glass Limited

March 07, 2019

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]**	Reaffirmed
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 reaffirmation in the ratings assigned to the bank facilities of HGL continues to factor in vast experience of the promoters, long track record of the company's operations in the glass manufacturing business and comfortable financial risk profile characterised by favourable capital structure, healthy debt coverage indicators and liquidity profile. The ratings also factors in HGL's long association with well-established clientele base, and in-house mould designing capability thereby providing flexibility in manufacturing glass bottles of different design and size.

The above rating strengths are however tempered by modest scale of operations, subdued operating performance in FY18 (refers to the period from April 01 to March 31) albeit improved during 9MFY19, high revenue dependence of HGL towards liquor sector, periodic refurbishment requirements of furnaces entailing substantial capital outlay, working capital intensive nature of operations, HGL's increasing support towards its joint venture and susceptibility of the profit margins to volatility in the key raw material prices.

Going forward, the company's ability to improve its scale of operations and profit margins through diversification of its revenues will remain the key rating sensitivities. Moreover, increase in exposure towards the JV, more than envisaged, affecting the capital structure or liquidity position of the company will remain a key rating monitorable.

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 the company into manufacturing of glass containers and 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 10 ml to 1000 ml.

Well established clientele base

Long presence in the glass manufacturing business has helped the company to establish good relationship with some of the leading players in the domestic markets belonging to different sectors such as liquor manufacturing, foods and non-alcoholic beverage manufacturing as well as pharmaceutical sector. Long association with these players has ensured repeat orders for the company from some of its key customers.

Financial risk profile of the company continues to be comfortable

The company continues to have moderate capacity utilization, and hence apart from regular maintenance capex and refurbishment requirements (planned in FY20) the company does not have any major capacity addition plan in the near future. Moreover, cash generated from the business helps the company to finance its working capital requirements largely through internal accruals, leading to low reliance on external borrowings to fund its operations. As on March 31, 2018, the company had total debt amounting to Rs.2.83 crore which includes working capital borrowings amounting to Rs.2.55 crore and vehicle loan of Rs.0.29 crore. As on March 31, 2018, the company continues to have favorable capital

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

structure, at 0.02 times (P.Y:0.01 times). Furthermore, owing to low debt resulting into low interest and finance charges, the company's debt coverage indicators continues to be healthy as seen from total debt to GCA ratio of 0.18 times and PBILDT interest coverage ratio of 24.94 times as on March 31, 2018.

Healthy liquidity position

The company's liquidity position seems to be healthy as it maintains adequate liquidity position in the form of cash balances of Rs.6.05 crore as on December 31, 2018 and average un-utilized fund based working capital bank facilities of around Rs.15-18 crore for the last twelve months ending December 31, 2018. The liquidity maintained by the company was sufficient to cover around 52 days of average cash expenses incurred during FY18. HGL's liquidity position is healthy with current ratio at 2.86 times and quick ratio at 1.76 times as on March 31, 2018 as against 2.78 times and 1.46 times as on March 31, 2017 respectively.

Key Rating Weaknesses

Moderate scale of operations coupled with high dependence on liquor sector

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. Moreover, any adverse change in the tax rates or ban of alcoholic products may impact the company revenue, as evident from decline in revenues during FY18.

Nevertheless, the company has been making attempts to diversify its revenue base by tapping exports market, as seen from rising export income over last couple of years. During FY18, despite decline in the total revenue, the exports income grew by 16.06% on y-o-y basis to Rs.26.02 crore from Rs.22.42 crore reported in FY17.

Decline in the operational performance during FY18; albeit, marginally improved in 9MFY19

FY18 was challenging year for the company, as the prices of its major raw materials increased. On the other hand ban of liquor sales near national highways resulted in not only lower demand of glass bottles from these liquor manufacturers, but passing on higher raw material prices also became difficult for the company. These factors combined resulted in lower total operating income and decline in the profit margins for the company. During FY18, the company's total operating income declined by 4.07% on y-o-y basis from Rs.172.98 crore in FY17 to Rs.165.94 crore in FY18. Furthermore, the company's net profit margin declined by 261 bps from 6.51% in FY17 to 3.90% in FY18.

However, as the demand scenario started improving slowly in 9MFY19, the company's sales also increased rising 32.73% on Y-o-Y basis from Rs.124.46 crore in 9MFY18 to Rs.165.20 crore in 9MFY19. Moreover, better economies of scale and lower tax outgo resulted in improvement in the net profit margins by 145 bps from 3.63% in 9MFY18 to 5.08% in 9MFY19.

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 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. This also necessitates the need for more working capital. As on March 31, 2018, the company's average working capital cycle increased marginally to 113 days from 106 days as on March 31, 2017. The increase in working capital cycle was mainly on account of higher receivable days owing to higher sales coming from fourth quarter when the total operating income increased to Rs.46.74 crore in Q4FY19 as against Rs.37.5 crore in Q4FY18.

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 & limestone. Moreover, glass manufacturing is a power intensive process, 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 & 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 furnaces 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 as one of them was refurbished in 2010, its modernization has been planned for FY20. However, the modernization cum refurbishment activity is expected to be funded entirely through internal accruals.

Exposure to JV having nascent stage 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 as FY18 (six months) was the first year of operation for the company, HHFGL reported net loss of Rs.19.76 crore during the year. In order to fund its cash losses, HGL infused further Rs.4.25 crore in June 2018 leading to increase in exposure towards JV from Rs.27.50 crore as on March 31, 2018 to Rs.31.75 crore as on December 31, 2018. Going forward, further increase in exposure towards the JV without commensurate increase in its networth base is a key rating monitorable.

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 49.46% in HGL as on December 31, 2018. 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), 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 December 31, 2018 HGL had 50% shareholding in the JV with total equity exposure amounting to Rs.31.75 crore.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	172.98	165.94
PBILDT	28.18	13.38
PAT	11.25	6.47
Overall gearing (times)	0.01	0.02
Interest coverage (times)	20.79	24.94

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.*

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service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	20.30	CARE A-; Stable	-	1)CARE A-; Stable (06-Feb-18)	1)CARE BBB+; Stable (30-Dec-16)	-
2.	Non-fund-based - ST-BG/LC	ST	11.00	CARE A2	-	1)CARE A2 (06-Feb-18)	1)CARE A2 (30-Dec-16)	-
3.	Non-fund-based - ST-Forward Contract	ST	0.06	CARE A2	-	1)CARE A2 (06-Feb-18)	1)CARE A2 (30-Dec-16)	-

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