Haldyn Glass Limited
March 24, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities-Fund Based (Cash Credit)	20.00 (reduced from 20.30)	**CARE A-; Stable [Single A Minus; Outlook: Stable]**	Reaffirmed
Short Term Bank Facilities-Non Fund Based	10.12 (reduced from 11.06)	**CARE A2 [A Two]**	Reaffirmed
Total Facilities	**30.12 (Rupees Thirty crore and Twelve 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 extensive experience of the promoters, long track record of the company's operations in the glass manufacturing business with in-house mould designing capability thereby providing flexibility in manufacturing glass bottles of different design and size, long association with reputed clientele as well as comfortable financial risk profile characterized by healthy capital structure, strong debt coverage indicators and adequate liquidity profile. The above rating strengths are however tempered by modest scale of operations, high revenue dependence of HGL towards liquor sector (albeit reducing), considerable capital outlay required for periodic refurbishment of furnaces, working capital intensive nature of operations, HGL's support towards its joint venture as well as susceptibility of the profit margins to volatility in the key raw material prices.

Key rating sensitivities:

Positive factors:

- Improvement in PBILDT margins above 18% through increase in scale of operations

Negative factors:

- Decrease in PBILDT margin below 10% on a sustained basis
- Increase in working capital utilization resulting in overall gearing above 0.50 times on a consistent basis

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 Haldyn group in 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 moulds of all designs and shapes along with labelling facility. Having In-house mould designing and manufacturing capability helps the company to manufacture different sized and shaped bottles for its clients in the range beginning from 1 ml to 2500 ml.

Well established clientele 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 containers.

Improvement in operational and financial performance

The company's operating income grew by 35% in FY19 to Rs.224.03 crore; mainly on account of improvement in demand scenario leading to economies of scale. The company reported PBILDT margin of 11.95% in FY19 as against 8.06% in previous year.

FY18 was challenging year for the company, on account of increase in price of raw materials and decrease in demand from liquor manufacturers. During FY18, there was also an increase in tax rates on beer manufacturing in one of the key liquor

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

markets coupled with ban of liquor sales near national highways resulting in not only lower demand of glass bottles from these liquor manufacturers but also passing on higher raw material prices also became difficult for the company.
During 9MFY20, the company recorded sales and PBILDT of Rs.180.39 crore and Rs.25.65 crore respectively.

Financial risk profile of the company continues to be strong

The company's capacity utilization is high. Hence, apart from regular maintenance capex and refurbishment requirements (planned in FY21), the company does not have any major capacity addition plan in 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, 2019, the company continues to have favorable capital structure as indicated by overall gearing ratio of 0.09 times. Moreover, the debt levels are expected to remain low as on March 31, 2020 and March 31, 2021. Furthermore, owing to low debt and hence low interest and finance charges, the company's debt coverage indicators continue to be healthy as seen from total debt to Gross Cash Accruals (TDGCA) ratio of 0.63 times and PBILDT interest coverage ratio of 53.48 times for FY19.

Key Rating Weaknesses

Sector concentration risk, although reducing

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. In FY18, company's revenue were impacted on account of change in the tax rates or ban of alcoholic products may impact the company revenue. Presently, liquor sector accounts for 70% of overall revenue and balance 30% consist of FMCG, Food and beverage, and cosmetics sector. The company plans to reduce liquor industry exposure to 60% over next two years.
The company is also working in order to diversify its revenue base by tapping exports market. The exports amounted for Rs.25.14 crores in FY19 (P.Y.: Rs.26.02 crore). The company caters to Africa, Nepal and Sri Lanka for exports. The export share is expected to increase from around 12% in FY19 to around 20% in next two years.

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, the company does not enjoy longer credit period for its major raw materials. As a result of these, the company's operating cycle ranges between 90-120 days. The company funds its working capital requirements from internal accruals.
As on March 31, 2019, the company's average working capital cycle improved to 89 days compared to 113 days in previous year. Improvement in operating cycle is mainly on account of efficient inventory management.

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 and 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 and 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. The company has two furnaces; one of them was refurbished in 2011, its modernization has been planned for FY21 which is expected to cost around Rs.19.75 crore. However, the modernization cum refurbishment activity is expected to be funded entirely through internal accruals.

Exposure to JV which is still at initial stages 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 is engaged in manufacturing premium glass containers used in cosmetic and perfumes industry. It reported revenue of Rs.23.35 crore and net loss of Rs.13.18 crore in FY19 as against net loss of Rs.19.76 crore in FY18. As on March 31, 2019, HGL has invested Rs.31.75 crore in the form of equity and no major additional fund infusion is envisaged in the JV over medium term. The company. For the optimum utilization of furnace of the JV, the company plans to set up additional bottling line in HHFPL. The said capex is expected to be completed in FY21 with an outlay of Rs.25 crore. The company plans to fund the entire capex through bank borrowings. In case if banks require promoters to infuse funds, HGL might have to infuse equity capital amounting Rs.2.5 crore. HGL has free cash and cash equivalents of Rs.17 crore as on February 29, 2020.

Analytical approach: Standalone.

Applicable Criteria
[Criteria on assigning Outlook and Rating 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 position: Adequate
The company's liquidity position remains adequate on account of sufficient cash accruals. The company does not have any major repayment obligations over medium term and its gross cash accruals are sufficient to fund capex of Rs.19.75 crore planned in FY21. Moreover, the free cash and cash equivalents stood at Rs.17 crore as on February 29, 2020 thereby providing additional liquidity cushion.

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 53.53% in HGL as on December 31, 2019. 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 1 ml to 2500 ml. The I.S. machines are capable of producing about 1.5 million high quality containers every day. 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).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	165.94	224.03
PBILDT	13.38	26.77
PAT	6.47	12.13
Overall gearing (times)	0.02	0.09
Interest coverage (times)	24.94	53.58

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
Fund-based - LT-Cash Credit	-	-	-	20.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	10.06	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 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.	Fund-based - LT-Cash Credit	LT	20.00	CARE A-; Stable	-	1)CARE A-; Stable (07-Mar-19)	1)CARE A-; Stable (06-Feb-18)	1)CARE BBB+; Stable (30-Dec-16)

2.	Non-fund-based - ST-BG/LC	ST	10.06	CARE A2	-	1)CARE A2 (07-Mar-19)	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 (07-Mar-19)	1)CARE A2 (06-Feb-18)	1)CARE A2 (30-Dec-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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