

Hindustan Adhesives Limited

September 13, 2019

Ratings

Facility	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank facilities – Term Loan	23.14	CARE BBB-; Positive (Triple B minus; Outlook: Positive)	Assigned
Long-term Bank facilities – fund based	20.80	CARE BBB-; Positive (Triple B minus; Outlook: Positive)	Assigned
Short-term Bank facilities – Fund / Non fund based	11.06	CARE A3 (A Three)	Assigned
Total	55.00 (Rupees fifty five crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Hindustan Adhesives Limited (HAL) continues to derive strength from the experienced promoters, long standing relationship with reputed clients and increase in export income with the operationalization of Mundra Plant. The rating also factors in comfortable financial risk profile of the company marked by increasing scale of operations and increasing profitability margins.

The ratings are, however are constrained by raw material price fluctuation risk and presence of large unorganized and organized players in the packaging market.

Going forward, the company's ability to increase its scale of operations along with increasing profitability margins would remain key rating sensitivities. Also, any un-envisaged cap-ex along with its funding pattern would also remain crucial.

Outlook: Positive

The outlook of the rating is "Positive" on account of CARE's expectation of further improvement in operating performance of the company leading to increased scale of operations and profitability margins in medium term backed by recent capacity expansion and its healthy capacity utilization. The outlook maybe revised to "Stable" in case of any moderation in envisaged growth in sales as well as profitability of the company.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced Promoters

HAL was established and promoted by Mr. Lalit kumar Bagla in 1988 for manufacturing of Bi-Axially Oriented Polypropylene (BOPP), Self-Adhesive Tapes and Polyolefin Shrink Films. The company is currently managed by Mr. Madhusudan Bagla. He is a commerce graduate having more than 30 years of experience in the packaging industry. The management of the company is supported by qualified and experienced personnel. The promoters and promoter group hold 68.48% shares in HAL as on June 30, 2019.

Longstanding relationship with reputed clients

HAL provides packaging solutions to various reputed customers which has been associated with the company for the last 10-15 years including ITC Limited, Dabur India Limited, Nestle India Limited, Parle Agro Limited, Britannia Industries Limited and many more. Apart from generating repeated business old reputed clients, commencement of new plant at Mundra, Gujarat also provided HAL to increase its export revenue and customer base by adding new clients thereby providing additional revenue. Currently, the company has around 500 customers.

Operationalization of new unit at Mundra, Gujarat for the export business in April, 2018

The company has commissioned its new unit in April, 2018 near Special Economic Zone (SEZ), Mundra (Gujarat) for the manufacturing of Self Adhesive Tapes. The plant was setup near to SEZ to cater to export market. The new plant has an installed capacity of 216 million square meters leading to total capacity of the company to 278 million square meters. The company has also setup one marketing unit in the US with branches in various parts of Europe under the name Bagla Films LLC to cater to foreign units of its Indian customers and subsequently cater to local players in the foreign geographies. The plant helped the company to increase its export income to a great extent.

Financial risk profile

The total operating Income of the company increased in FY19 to Rs. 141.24 crore from Rs. 75.96 crore in FY18 witnessing an increase of 85.94% on account of increase in its export income from Rs. 10.12 crore in FY18 to Rs. 76.73 crore in FY19. The

increase in export business is due to set up of new unit at Mundra, Gujarat which is primarily for export and the company has been able to add several new clients to its folio. The PBILDT margin for the company moderated to 9.67% in FY19 from 11.16% in FY18 on account of commencement of new plant at Mundra, Gujarat and FY19 being the first year of operations. The overall gearing remained stable to 1.29x as on March 31, 2019 as compared with 1.30x as on March 31, 2018. Other coverage indicators including Total Debt to Gross Cash Accruals improved to 4.72x in FY19 on account of increase in cash accruals due to higher export revenue.

The company has witnessed improvement of 63.41% in its Total Operating Income to Rs. 41.36 crore in Q1FY20 as compared with Rs. 25.31 crore in Q1FY19. The improvement in operating income is on account of increase in its export income and full year operationalization of new Adhesive tape manufacturing plant at Mundra.

Liquidity profile

The current ratio of the company remained stable to 1.08x as on March 31, 2019. The operating cycle of the company improved to 59 days in FY19. The improvement in operating cycle is on account of improvement in collection period to 50 days in FY19 from 72 days in FY18 due to increase in export revenue. The improved collection period and more export demand led to improved inventory holding period to 58 days in FY19. Also, at the Mundra plant, inventory moves faster than the other plant as there are few customers demanding larger quantity as compared with other plant in which there are various customers demanding lesser quantities. The average working capital utilization for the 12 months ending July, 2019 remained at 86.67%.

Key Rating Weakness

Raw Material Price Fluctuations risk

As the basic raw material for the company is Granuels and BOPP which are derived from Crude Oil, the fluctuations in the prices of crude oil also impact the revenue of the company. Though the change in prices of the raw material is not passed on to the customers instantly, hence the increase in price of raw material can impact the profitability margins of HAL.

Competitive nature of the Industry

Almost every product packed in retail saleable pack is further packed in corrugated boxes for transportation, which required to be sealed by carton sealing tapes, technically named as BOPP Self Adhesive tapes. BOPP Tape market size in India is estimated around Rs. 100 crore / Month. This market is divided primarily into two parts – Organized sector and unorganized sector. The organized sector contributes around 40% of the demand while the remaining demand is fulfilled by organized sector. With the presence of large number of players in the BOPP tape market unorganized sector, it poses a serious competition to HAL future revenue feasibility. Government Initiatives to provide benefits to the exporting companies increases the demand for corrugated boxes which in turn will increase the demand for packaging tapes.

Analytical approach: Standalone

Applicable Criteria

- [CARE's Criteria on assigning Outlook to Credit Ratings](#)
- [CARE's Policy on Default Recognition](#)
- [CARE's criteria for Short Term Instruments](#)
- [Rating Methodology-Manufacturing Companies](#)
- [CARE's methodology for financial ratios \(Non-Financial sector\)](#)

About the Company

Hindustan Adhesive Limited (HAL) is a part of Bagla Group. The company was incorporated in 1988 and promoted by Mr. Lalit Kumar Bagla and his son Mr. Madhusudan Bagla for the manufacturing of Bi-Axially Oriented Polypropylene (BOPP), Self-Adhesive Tapes and Polyolefin Shrink Films (POF Films). The company commissioned its first manufacturing plant in Uttar Pradesh in October, 1989 with an installed capacity of 10 million sq. meters. Currently, the company has three manufacturing units; one in Uttar Pradesh (Ghaziabad), one in Uttarakhand (Roorkee) and one in Gujarat (Mundra).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	75.96	141.24
PBILDT	8.48	13.66
PAT	2.49	2.37
Overall gearing (times)	1.30	1.29
Interest coverage (times)	3.22	2.49

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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	-	-	June 2025	19.64	CARE BBB-; Positive
Fund-based - LT-External Commercial Borrowings	-	-	2022	3.50	CARE BBB-; Positive
Fund-based - LT-Cash Credit	-	-	-	20.80	CARE BBB-; Positive
Non-fund-based - ST-BG/LC	-	-	-	7.50	CARE A3
Fund-based/Non-fund-based-Short Term	-	-	-	3.56	CARE A3

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	19.64	CARE BBB-; Positive	-	-	-	-
2.	Fund-based - LT-External Commercial Borrowings	LT	3.50	CARE BBB-; Positive	-	-	-	-
3.	Fund-based - LT-Cash Credit	LT	20.80	CARE BBB-; Positive	-	-	-	-
4.	Non-fund-based - ST-BG/LC	ST	7.50	CARE A3	-	-	-	-
5.	Fund-based/Non-fund-based-Short Term	ST	3.56	CARE A3	-	-	-	-

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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