

Hindustan Adhesives Limited

September 29, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	72.55 (enhanced from 43.94)	CARE BBB-; Stable (Triple B minus; Outlook: Stable)	Rating Reaffirmed; Outlook revised from Positive to Stable
Short term Bank Facilities	2.45 (reduced from 11.06)	CARE A3 (A Three)	Reaffirmed
Total Facilities	75.00 (Rupees seventy five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Hindustan Adhesives Limited (HAL) continues to drive strength from the experienced promoters along with company's long operational track record, and its long standing relationship with reputed clients. The rating also factors in satisfactory operational performance marked by steady growth in scale of operations and profitability.

The ratings are, however, constrained by presence of large organized and unorganized players in the packaging market and high fluctuations in the price of raw material and moderation in financial risk profile due to increase in overall gearing and deterioration in debt coverage indicators as a result of commissioning of debt-funded capacity expansion in Mundra, Gujarat in FY20 (refers to the period from April 1 to March 31).

Rating Sensitivities

Positive Factors

- Improvement in gross cash accruals above Rs.14 crore leading to improvement in debt coverage indicators on a sustained basis.
- Improvement in liquidity with lower dependence on external borrowing and improvement in current ratio above 1.25x on a sustained basis.

Negative Factors

- Deterioration in total debt/ GCA above 5.50x.
- Increase in gross current assets above 120 days.

Outlook: Stable

The outlook has been revised from 'Positive' to 'Stable' on account of CARE's expectation of lower than envisaged profitability in FY21 amidst current market scenario which shall keep the gearing elevated and debt coverage indicators weaker than previously envisaged.

Detailed description of the 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, having more than 30 years of experience in the packaging industry. The management of the company is supported by qualified and experienced personnel. Promoters hold 68.48% shares in HAL as on June 30th, 2020.

Long standing relationship with reputed clients:

HAL provides packaging solution to various reputed clients which have been associated with the company from last 10-15 years which includes Parle Agro Limited, Britannia Industries Limited, Nestle India Limited, ITC Limited to name a few. Apart from repeat orders from existing clientele, the company has been able to add few overseas clients to its portfolio which includes Power pack LLC (a distributor based out of USA), Atlantic Caribbean, and BDG Wrap TITE among others.

Satisfactory operational performance

The total operating income of the company has increased to Rs. 152.17 crore in FY20 as compared to Rs. 139.05 crore in FY19 which was supported by growth in exports by about 23% from Rs. 76.73 crore (55% of total operating income) in FY19 to Rs. 94.07 crore (62% of total operating income) in FY20. With the commissioning of new plant in Mundra, Gujarat in FY19 and further capacity expansion of self-adhesive tapes in FY20, the company has been able to add new overseas clients to its portfolio which fetch better yield as compared with domestic clients. The PBILDT margin for the company improved to

11.27% in FY20 from 10.14% in FY19 on account of higher sales realization mainly driven by the export sales. The interest expense reduced from Rs. 5.76 crore (4.0% of total operating income) in FY19 to Rs. 5.39 crore (3.5% of total operating income) in FY20 due to packing credit availed at relatively lower rate which led to improvement in PAT margin from 1.77% in FY19 to 3.35% in FY20. During Q1FY21 (refers to the period from April 1 to June 30), the company has reported operating income of Rs. 45.19 crore with a PAT of Rs.2.68 crore as compared to operating income of Rs. 41.36 crore and PAT of Rs.2.15 crore during Q1FY20.

Completion of new unit at Gujarat for adhesive tape manufacturing:

The company has set up a new unit in FY19 at Mundra (Gujarat) near Special Economic Zone (SEZ) for manufacturing of Self Adhesives Tapes with a total capacity of 27.20 million square meters. As the company witnessed growth in exports during FY19 and FY20 from its key clients and sustained demand, management further undertook expansion project in FY20. The augmentation of Self-Adhesive tape capacity was expanded from 27.20 square meter (sq. mt.) as on June 30th, 2020 to 42.00 sq. mt. at a total cost of Rs.30 crore funded through term loan of Rs.22 crore and balance through unsecured loans/ internal accruals. HAL has also setup one marketing unit in US with branches in various parts of Europe under name Bagla Films LLC to cater to foreign units of its Indian customers.

Key Rating Weaknesses

Raw material price fluctuation risk:

The basic raw material for the company is BOPP and granules which are derivatives of crude oil and any fluctuation in its prices directly impacts the profitability of the company. HAL's gross margin as compared to total sales for the company has reduced significantly over the last 3 years from about 42% in FY18 to about 32% in FY20 and remains exposed to raw material price fluctuation. Even though gross margin was declining, the company was able to maintain its PBILDT margin mainly on account of reduction in its fixed overheads, where power cost has reduced from 8% of total operating income (TOI) in FY18 to 4.5% of total operating income in FY20 and employee cost reducing from 11% of total operating income in FY18 to 8% of total operating income in FY20 among other overheads.

Moderation in financial risk profile:

The overall debt of the company has increased to Rs. 70.24 crore as on March 31, 2020 from Rs. 53.57 crore as on March 31, 2019 due to the commissioning of new debt-funded expansion project in Mundra, Gujarat in FY20. As a result of this capex, the overall gearing increased from 1.82x as on March 31, 2019 to 2.02x as on March 31, 2020. Further, due to lower than envisaged growth in scale and profitability in FY20, the debt coverage indicators also deteriorated with total debt/ GCA stood at 6.18x as on March 31, 2020 (PY: 5.32x) and total debt/ cash flow from operations stood at 6.89x (PY: 4.41x).

Competitive nature of Industry:

Technological advancements have led to increasing demand for lightweight packing materials in the recent past because almost every product packed in retail saleable pack is further packed in corrugated boxes for transportation. These boxes are then sealed by carton sealing tapes, technically called BOPP Self Adhesive tapes. The growing end-use industries such as FMCG, automotive and electronics have led to rapid increase in demand for adhesive tapes over the past few years. Increasing consumer awareness pertaining to hygiene coupled with increasing disposable income has led to rapid increase in demand for adhesive tapes in healthcare sector, thus driving the adhesive tapes market. However, the market is divided into Organized sector and unorganized sector. With the presence of large number of players in the BOPP tape market unorganized sector, it poses a serious competition to HAL's future revenue visibility. The company has ventured into exports with growing contribution in overall revenue mix to diffuse geographical concentration and geo-political risks to a certain extent.

Prospects

Almost every product packed in retail saleable pack is further packed in corrugated boxes for transportation, which is required to be sealed by carton sealing tapes, technically named as BOPP Self Adhesive tapes. The operations of the company are closely linked with the performance of FMCG segment, healthcare and the packaging industry. The growth in these segments have driven the demand for adhesive tapes over the years. The FMCG companies have fared well even during the period of lockdown as only the essentials were allowed to operate during this period. The prospects of the company, going forward shall be governed by its ability achieve sustainable growth in the export market while maintaining the sales network in the domestic market with improved profitability and without any adverse impact on the capital structure of the company.

Liquidity: Stretched

Liquidity remains stretched with average working capital utilization of ~85% for the trailing 12 months ended July, 2020. HAL has scheduled debt repayment of Rs. 9.12 crore for FY21 against projected cash accruals of Rs. 13.84 crore for FY21 and company has reported cash accruals of Rs. 4.32 crore for Q1FY21. The company has free cash and bank balance of Rs. 1.35

Cre as on June 30, 2020. The current ratio of unity as on March 31st, 2020 has remained unchanged largely on account of high current portion of debt repayment obligation and internal accruals being utilized for capex. The company has availed moratorium facility from Allahabad Bank and IDBI Bank for the months of March 2020 – May 2020, while the company opted not to avail the second tranche of moratorium till August 2020.

Analytical approach: Standalone

Applicable Criteria

[CARE's criteria on assigning outlook and credit watch to credit ratings](#)

[CARE's policy on default recognition](#)

[CARE's criteria for short term instruments](#)

[Liquidity Analysis – Non-financial sector](#)

[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) with a total installed capacity of 27.20 million square meter as on June 30, 2020. Apart from HAL, the group has another company Bagla Polifilms Limited (BPL – rated CARE BB+; Stable / CARE A4+) which started its operations in 1988. 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)	FY19 (A)	FY20 (A)
Total operating income	139.05	152.17
PBILDT	14.54	17.88
PAT	2.54	5.31
Overall gearing (times)	1.82	2.02
Interest coverage (times)	2.65	3.31

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

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	-	-	March, 2027	42.02	CARE BBB-; Stable
Fund-based - LT-External Commercial Borrowings	-	-	March, 2024	7.73	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	22.80	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	1.12	CARE A3
Fund-based/Non-fund-based-Short Term	-	-	-	1.33	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	42.02	CARE BBB-; Stable	-	1) CARE BBB-; Positive (13-Sep-19)	-	-
2.	Fund-based - LT-External Commercial Borrowings	LT	7.73	CARE BBB-; Stable	-	1)CARE BBB-; Positive (13-Sep-19)	-	-
3.	Fund-based - LT-Cash Credit	LT	22.80	CARE BBB-; Stable	-	1)CARE BBB-; Positive (13-Sep-19)	-	-
4.	Non-fund-based - ST-BG/LC	ST	1.12	CARE A3	-	1)CARE A3 (13-Sep-19)	-	-
5.	Fund-based/Non-fund-based-Short Term	ST	1.33	CARE A3	-	1)CARE A3 (13-Sep-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the instrument	Complexity Level
1.	Fund-based – LT-Cash Credit	Simple
2.	Fund-based – LT-External Commercial Borrowings	Simple
3.	Fund-based/Non-fund-based – Short Term	Simple
4.	Non-fund-based – ST-BG/LC	Simple
5.	Term Loan-Long Term	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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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.

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