

## Hindusthan National Glass & Industries Limited

March 09, 2017

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	2,113.93 (reduced from 2,131.28)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Revised from CARE BB (Double B)
Long-term/Short-term Bank Facilities	600.00	CARE B+; Stable/CARE A4 (Single B Plus; Outlook: Stable/A Four)	Revised from CARE BB/CARE A4 (Double B/A Four)
<b>Total</b>	<b>2,713.93</b> <b>(Rupees Two Thousand Seven Hundred Thirteen crore and Ninety Three lakh only)</b>		
NCD - Series-III	200 (Rupees Two Hundred crore only)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Revised from CARE BB (Double B)
NCD - Series-I	-	-	Withdrawn

*Details of facilities/instruments in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the long-term ratings assigned to the bank facilities/instruments of Hindusthan National Glass & Industries Ltd. (HNG) takes into account the continued high level of operational loss in FY16 (refers to the period April 1 to March 31) & 9MFY17 and further weakening of the capital structure particularly due to erosion of networth with continuous losses. The ratings also take note of the significant amount of debt repayment obligation in FY18.

The ratings continue to be constrained by the moderate capacity utilisation levels due to subdued industry outlook, foreign currency fluctuation risk and threat from substitute products.

However, the ratings continue to draw strength from the experience of the promoters and long track record of the company along with established market presence and leadership position in container glass industry.

The ratings also factor in the sale of investment in subsidiary company, HNG Global GmbH (HNG Global) in June 2016 for Euro 23 mn which enabled the company to meet its debt obligations in timely manner as per the terms of the Corrective Action Plan (CAP) implemented by the lenders.

Improvement in operational performance and timely infusion of funds are the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### **Stable operating income with operational losses during FY16; albeit losses reduced in 9MFY17 due to stake sale in HNG Global**

The operating income of the company remained relatively stable during FY16. Though PBILDT margin witnessed improvement during FY16, the high capital charge led to losses.

During 9MFY17, the total operating income was marginally lower at Rs.1,372.23 crore as compared with Rs.1,401.83 crore during 9MFY16. The PBILDT margin declined, particularly due to the impact of demonetisation in Q3FY17. However, non-operating income of Rs.103.14 crore mainly comprising profit of Rs.94.69 crore arising on disposal of investment in HNG Global resulted in lower net loss of Rs.46.99 crore during 9MFY17 as compared with net loss of Rs.202.72 crore during 9MFY16.

#### **Debt management exercise undertaken by the company**

In view of the liquidity stretch being faced by the company during H1FY15, a debt management exercise was undertaken, under which majority of the consortium members approved and implemented a CAP in March 2015. This resulted into deferment of repayment obligations of the company for two years with the cut-off date being December 01, 2014 along with reduction of interest. In line with the broad outlines of such CAP terms, the management of the company infused Rs.33 crore in Q4FY15 and Rs.9.31 crore in FY16 as unsecured loans. Furthermore, net infusion into HNG through the stake sale of HNG Global was expected to be around 15 million Euro (around Rs.110 crore), to be completed by Q4FY16. However, the deal was completed during June 2016 for a consideration of 23 mn Euro (Rs.166 crore). The company is also required to infuse Rs.150 crore each in FY18 and FY19 and Rs.100 crore each in FY21 and FY22 as per CAP terms.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

Apart from this, one of the bankers of the consortium who has not agreed to the CAP formulated by the Joint Lenders Forum (JLF) referred such matter to Hon'ble High Court of Calcutta which is presently sub-judice. The matter was also referred to Debt Recovery Tribunal of Kolkata by such concerned banker and the same remains sub-judice.

#### ***Moderate capacity utilisation levels***

The capacity utilisation declined from 75.45% in FY15 to 63.49% in FY16. The decrease was primarily due to sluggish growth in demand and oversupply situation in the market.

#### ***Weak capital structure and debt coverage indicators***

With consistent losses leading to erosion of networth, HNG's capital structure has deteriorated substantially over the years. The overall gearing ratio of the company witnessed further deterioration and stood at 11.79x as on March 31, 2016 vis-à-vis 6.53x as on March 31, 2015. Though the interest coverage improved marginally with increase in PBILDT, it continued to remain weak.

#### ***Foreign currency borrowings exposing the company to foreign currency risks***

The net imports of the company stood at Rs.146.33 crore in FY16 thus exposing the company to foreign exchange fluctuation risk. Further in FY12, HNG raised substantial foreign currency loans, to carry out its expansion plans and operational activities. Out of outstanding foreign currency loans as on March 31, 2016, loans aggregating USD 65 million (Rs.431.50 crore with a conversion rate of Rs.66.38/\$) remained unhedged as on March 31, 2016.

#### ***Threat of substitute products***

The container glass industry is facing threat from alternate forms of packaging like flexible packaging, laminates and plastic containers owing to factors like weight, fragility, cost, etc.

#### **Key Rating Strengths**

##### ***Long track record of the company with established market presence***

HNG, having track record of over six decades, is a leading manufacturer of container glass and has a pan India presence. The company has seven manufacturing facilities with an aggregate installed capacity of 1,569,500 tpa spread across the country. It is the largest container glass player in the country with the highest market share.

##### ***Experienced promoters***

Mr C. K. Somany (Chairman), the current promoter of HNG, is a renowned technocrat having over 60 years of experience in glass technology. His two sons, Mr Sanjay Somany and Mr Mukul Somany, both being Vice Chairman & MD, also have an experience of over 26 years in the container glass industry.

**Analytical approach:** Standalone

#### **Applicable Criteria**

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology-Manufacturing Companies](#)

#### **About the Company**

HNG, incorporated in February 1946, was promoted by the Kolkata-based Somany family and, currently, Mr C. K. Somany is the chairman of the company. The company is a leading manufacturer of container glass with seven manufacturing units, spread across the country having an aggregate installed capacity of 1,569,500 tpa (tonne per annum), the largest in the country.

In FY16, HNG reported net loss of Rs.193.33 crore on total operating income of Rs.1,975.51 crore against net loss of Rs.237.05 crore on operating income of Rs.1,997.71 crore in FY15. During 9MFY17, the company reported net loss of Rs.46.99 crore on total operating income of Rs.1,372.23 crore.

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**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	-	-	-	565.00	CARE B+; Stable
Fund-based - LT-Term Loan	-	-	September'2025	271.61	CARE B+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	580.00	CARE B+; Stable / CARE A4
Fund-based - LT-Term Loan	-	-	September'2025	1070.32	CARE B+; Stable
Fund-based - LT-Cash Credit	-	-	-	35.00	CARE B+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	20.00	CARE B+; Stable / CARE A4
Fund-based - LT-Term Loan	-	-	September'2025	172.00	CARE B+; Stable
Debentures-Non Convertible Debentures	-	10.40	February 2, 2022	200.00	CARE B+; Stable
Debentures-Non Convertible Debentures	-	-	-	0.00	Withdrawn

## 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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Commercial Paper-CP/STD	ST	-	-	-	-	-	1)Withdrawn (06-Jan-14)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE BB (30-Dec-15) 2)CARE BBB- (03-Sep-15)	1)CARE BBB- (30-Dec-14)	1)CARE BBB+ (06-Jan-14)
3.	Fund-based - LT-Cash Credit	LT	565.00	CARE B+; Stable	-	1)CARE BB (30-Dec-15) 2)CARE BBB- (03-Sep-15)	1)CARE BBB- (30-Dec-14)	1)CARE BBB+ (06-Jan-14)
4.	Fund-based - LT-Term Loan	LT	271.61	CARE B+; Stable	-	1)CARE BB (30-Dec-15) 2)CARE BBB- (03-Sep-15)	1)CARE BBB- (30-Dec-14)	1)CARE BBB+ (06-Jan-14)
5.	Non-fund-based - LT/ST-BG/LC	LT/ST	580.00	CARE B+; Stable / CARE A4	-	1)CARE BB / CARE A4 (30-Dec-15) 2)CARE BBB- / CARE A3 (03-Sep-15)	1)CARE BBB- / CARE A3 (30-Dec-14)	1)CARE BBB+ / CARE A2 (06-Jan-14)
6.	Debentures-Non Convertible Debentures	LT	200.00	CARE B+; Stable	-	1)CARE BB (30-Dec-15) 2)CARE BBB- (03-Sep-15)	1)CARE BBB- (30-Dec-14)	1)CARE BBB+ (06-Jan-14)
7.	Fund-based - LT-Term Loan	LT	1070.32	CARE B+; Stable	-	1)CARE BB (30-Dec-15) 2)CARE BBB- (03-Sep-15)	1)CARE BBB- (30-Dec-14)	1)CARE BBB+ (06-Jan-14)
8.	Debentures-Non Convertible Debentures	-	-	-	-	-	-	1)Withdrawn (06-Jan-14)
9.	Fund-based - LT-Cash Credit	LT	35.00	CARE B+; Stable	-	1)CARE BB (30-Dec-15) 2)CARE BBB- (03-Sep-15)	-	-
10.	Non-fund-based - LT/ST-BG/LC	LT/ST	20.00	CARE B+; Stable / CARE A4	-	1)CARE BB / CARE A4 (30-Dec-15) 2)CARE BBB- / CARE A3 (03-Sep-15)	-	-
11.	Fund-based - LT-Term Loan	LT	172.00	CARE B+; Stable	-	1)CARE BB (30-Dec-15) 2)CARE BBB- (03-Sep-15)	-	-

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CIN - L67190MH1993PLC071691