July 08, 2021

Gold Plus Glass Industry Limited: Ratings upgraded to [ICRA]BBB (Stable)/A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	453.14	453.14	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB-(Stable)
Cash Credit	126.00	126.00	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB-(Stable)
Short-term Non-fund Based Limits	100.00	80.00	[ICRA]A3+; Upgraded from [ICRA]A3
Unallocated	-	20.00	[ICRA]A3+; Upgraded from [ICRA]A3
Total	**679.14**	**679.14**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the ratings of Gold Plus Glass Industry Limited (Gold Plus) takes into consideration the continued improvement in its operating performance, with healthy traction in volumes, and a significant and sustained improvement in profitability. The company has also been able to manage its working capital cycle efficiently, and improve its cash flow generation as well during the recent months. Accordingly, its utilisation of working capital facilities has reduced, improving the liquidity buffer available from unutilised credit facilities as well. Moreover, the healthy operating performance is expected to continue over the near to medium term, supported by favourable industry dynamics, that has resulted in improved pricing power for domestic glass manufacturers, as well as the company's efforts to augment the profitability through efficiency gains, locking in of some key cost elements, improved product mix, etc.

While Gold Plus' operations in FY2019 and FY2020 were significantly impacted by weak operating performance of Line I and, subsequently, its refurbishment as well as high fuel prices, and pandemic induced disruptions, the turnaround from Q2 FY2021 onwards has been robust. Supported by availability of two new lines for production and healthy demand from the domestic market, it reported average monthly sales of 32,838 MT over July 2020 to May 2021, against the monthly average of 23,278 MT in FY2020. This was despite the second pandemic wave induced disruptions in the country in April and May 2021, during which period it continued to clock an average of ~31,000 MT monthly sales. Additionally, aided by stable raw material and fuel prices, as well as an improved product mix (with higher proportion of value-added glass), the EBITDA margins increased to 19% in August 2020 and further to 26% in February 2021 and over 30% in 2M FY2022, vis-à-vis 8% in FY2020. Going forward, with two lines available for production, the company has dedicated one line for value-added glass production, which augurs well for sustaining the increase in realisation and margins on the back of an improved product mix. In addition to these operational efficiency measures and improvement in product mix, the industry and company have benefited from Government measures, such as the imposition of anti-dumping duty (ADD) on imports of clear glass from Malaysia in August 2020 and BIS certification requirement from January 2021, which have provided better pricing power for domestic players.

Given these favourable developments, Gold Plus has been reporting robust operating performance. Although gas prices, which account for ~20% of operating costs, firmed up over recent months, the company has been able to pass on the same to its customers and maintain its profitability margins. Nevertheless, considering the energy intensive nature of operations, ICRA would continue to monitor the fuel price trends, and the company's ability to protect its margins in a scenario of hardening fuel prices. To this extent, the management is also exploring options for entering into fuel price contracts so as to bring stability to its margins.

Gold Plus is currently the second largest glass manufacturing company in India (by installed capacity; with an installed production capacity of 1,250 tonne per day, or TPD) and enjoys a sizeable market presence in the clear float glass segment, especially in North and East India. Additionally, given the favourable industry dynamics and enhanced growth prospects, the company has decided to invest in capacity enhancement through a greenfield facility in South India, which would add incremental capacity of 1,900 TPD over the next four years. The capex planned by the company would entail significant investment of ~Rs. 2,300 crore, which would be funded through a mix of fresh equity, incremental debt and internal accruals. Although the large capex plans would result in significant debt addition over the medium to long-term, comfort is drawn from the fact that—(a.) the company plans for a large equity raise in the current year to fund the initial leg of the capex; (b.) some part of the debt for the project would be back-ended due to reliance on capex LCs for imported machinery; and (c.) the significant incremental revenue and EBITDA prospects from the new facility would aid debt servicing of the new loans. Nevertheless, ICRA would continue to monitor the progress of the project, both in terms of time and cost overruns, as well as final funding mix adopted for the same, and any large deviations from current expectations would remain rating sensitivities.

Despite the improvement in operating performance, the ratings continue to be constrained by large debt repayments and debt-funded capex on the anvil. On its existing term loans itself, Gold Plus has repayment obligations of Rs. 110-135 crore annually during the next three fiscals and associated sizeable interest outgo. Accordingly, the sustainability of the traction in volumes and margins would remain critical in meeting these obligations. Additionally, while existing debt levels would taper off with scheduled repayments, incremental debt is planned to be availed over the medium term for the planned greenfield facility. Consequently, despite the equity fund raise planned, the balance sheet is expected to remain leveraged and credit metrics constrained, on account of the sizeable capex. ICRA expects Total Debt/OPBITDA to potentially peak in FY2023 at more than 3x as the new project would only be in commissioning stages, and subsequently improve as the earnings from the new lines start to accrue, and existing debt levels get pared down.

The Stable outlook on the long-term rating factors in ICRA's expectation that Gold Plus would sustain the recent improvement in operating performance, with traction in volumes and healthy profitability indicators likely to help generate healthy cash flows to comfortably meet its sizeable debt repayment and maintain credit metrics in line with the rating category.

Key rating drivers and their description

Credit strengths

Leading player in domestic float glass industry – Gold Plus is the second largest manufacturer of float glass in India, with an installed production capacity of 1,250 TPD. The company's business profile is supported by experienced promoters and a sizeable market share in the clear glass segment, especially in North and East India. Saint Gobain is the market leader in the float glass industry with a manufacturing capacity of 3,850 TPD. Asahi India is the third largest player with an installed capacity of 1,200 TPD. Other key players include Gujarat Guardian and HNG Float.

Healthy business prospects supported by imposition of ADD on imports and increasing acceptance of float glass in various industries – To support local manufacturers from lower-priced imports, the Government of India has recently taken several initiatives, such as levy of ADD. The imposition of ADD on imports from Malaysia in FY2021 strengthened the business prospects of domestic players, supporting import substitution. In addition to the increased volumes, the ADD has alleviated pricing pressures in the industry, supporting improvement in realisations and margins. The Government has imposed other non-tariff measures such as requirement of ISI certification for glass sold in India from January 2021, which also restricts dumping activity from other countries. In addition to import substitution, ICRA expects the company's medium to long-term growth prospects to remain supported by the structural positive changes in demand for float glass in the country, on the back of increased acceptance of glass as a building material, and for other applications such as white goods, furniture, fixtures, etc.

Improvement in product mix, realisations and margins – Gold Plus, through recent capacity expansions and refurbishment, has strengthened its presence in the higher-margin tinted glass segment over the past few quarters. The improvement in product mix, coupled with improved pricing power in the industry on the back of an advantageous demand-supply situation, has aided Gold Plus in significantly improving its average realisations and profitability margins over the recent months. Going forward, with dedication of one line towards value-added glass production, the product mix is expected to remain favourable. Gold Plus is the only float glass manufacturer in North India with two manufacturing lines under the same unit, allowing it to cater to the varied requirements of dealers in a single consignment.

Credit challenges

Financial leverage to remain high due to sizeable capex incurred recently, and planned over the medium term – Despite some improvement in FY2021, the company continued to have a high total debt to OPBDIT ratio (3.6 times in FY2021) owing to sizeable capex incurred recently. Although it is expected to improve further in the current fiscal on the back of improvement in profitability, the sustainability remains to be seen, especially in light of the significant debt-funded capex planned again for setting up a greenfield facility in South India. Accordingly, with large capex plans in the anvil (~Rs. 2,300 crore over the next 5-6 years), a sustained and material improvement in coverage indicators can only be expected over a longer term.

Sizeable debt repayments over near to medium term – Gold Plus has sizeable debt obligations over the near to medium term, pertaining to debt availed for earlier capacity expansion/refurbishment. However, ICRA takes comfort from the improvement in operations over the recent months, and the promoter support exhibited over the years, which would help the company absorb unforeseen disruptions, if any, in meeting its debt obligations.

Exposed to volatility in fuel and raw material costs – With glass manufacturing being an energy intensive process, the company's profitability is highly exposed to volatility in fuel prices. Additionally, silica sand, soda ash and dolomite account for 70% of the total raw material costs. Its profitability remains sensitive to the fluctuations in the prices and availability of these raw materials from proximate sources, although the prices of raw materials have remained largely stable over the past few years. However, ICRA draws comfort from the fact that despite hardening fuel prices over the past few months, Gold Plus has been able to pass on the same to customers through price hikes and maintain margins.

Float glass industry tends to be cyclical in nature owing to lumpiness in capacity addition – The float glass industry is cyclical because of lumpiness in capacity addition. The industry is highly capital intensive in nature with economically viable capacity addition standing in the range of 550-600 TPD. This leads to lumpy capacity addition in the sector, which has an adverse impact on float glass prices. This was visible during FY2018–H1 FY2019, which witnessed a 43% growth in domestic capacity, leading to a significant decline in glass prices. However, given that the industry is capital intensive, with a minimum period of 18-24 months required for setting up a new line, the current situation of supply shortage in the industry is expected to continue over the near term. However, the situation and market dynamics would need to be monitored with capacity expansion plans announced by certain players, including Gold Plus, over the next 2-3 years.

Liquidity position: Adequate

Gold Plus' liquidity position is **adequate**. Although debt repayments are sizeable at Rs. 110-130 crore/annum over the next few years, it is expected to meet the same from its internal cash flow generation. With two relatively new lines in operation, the near-term capex outgo for maintenance requirements would remain minimal. Capacity expansion plans, over the near to medium term, are anticipated to be funded mainly through incremental external funds raised. ICRA also notes that the company's utilisation of working capital facilities has reduced in recent months, supported by the improved cash flow generation. Gold Plus had a buffer of Rs. 60-70 crore from unutilised limits during April and May 2021, providing it with some buffer to absorb unforeseen disruptions. Additionally, ICRA expects liquidity support from the promoters in case of any shortfall in meeting the debt servicing requirements from cash flow generation and available lines of credit.

Rating sensitivities

Positive factors – The company's ratings can improve if it is able to sustain the improvement in its operating performance, with healthy profitability margins, and also improve its liquidity position further on a sustained basis. Furthermore, timely execution of the capex planned over the medium term would also remain a key monitorable.

Negative factors – The ratings may be downgraded in case of deterioration in earnings on account of muted sales or pricing/cost pressures, or in case of larger-than-expected debt-funded capex, which leads to weakening of credit metrics such as interest cover less than 3.4 times on a sustained basis. Furthermore, any deterioration of the company's liquidity position also has the potential to result in a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on Gold Plus' standalone financial statements

About the company

Incorporated in 1985, Gold Plus is the second largest float glass manufacturing company in India with an annual capacity of 1,250 TPD. The company set up its first glass manufacturing line in January 2009 with an annual capacity of 470 TPD, which was further augmented in 2018 with its second greenfield facility of 700 TPD capacity. Line I was subsequently refurbished in October 2019 with an increased capacity of 550 TPD. Both units are located in Roorkee (Uttarakhand). Gold Plus primarily manufacturers clear float glass for architectural applications. Following the capacity addition, it expanded its offerings to include higher value-added glass, such as tinted glass. With glass being a freight intensive product, the company generates most of its revenues from North India (55%), followed by East India (17-18%) and 26% from South and West India, and the rest from exports.

Key financial indicators (audited)

Gold Plus	FY2020	FY2021
Operating Income (Rs. crore)	630.2	852.6
PAT (Rs. crore)	-78.1	79.2
OPBDIT/OI (%)	6.4%	18.6%
PAT/OI (%)	-12.4%	9.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.3	1.5
Total Debt/OPBDIT (times)	14.7	3.6
Interest Coverage (times)	0.6	2.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Note: Amount in Rs. crore; All calculations are as per ICRA research
Source: Gold Plus, ICRA research

Status of non-cooperation with previous CRA: Not applicable

- Ratings of [IND]BB+/A4+ moved to Issuer Not Cooperating category by India Ratings in September 2018 due to lack of adequate information.
- CARE ratings revised from [CARE]BB+(Positive)/A4+ to [CARE]BB+(Stable)/A4+ and moved to Issuer Not Cooperating category in April 2019 due to lack of adequate information; subsequently revised to [CARE]B+(Negative)/A4 Issuer Not Cooperating in June 2020

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021			Date & Rating in FY2020	Date & Rating in FY2019
					Jul 8, 2021	Mar 24, 2021	Dec 11, 2020	Sep 18, 2020 May 22, 2020	Apr 11, 2019	Feb 14, 2019
1	Term Loans	Long-term	453.14	393.18	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+&	[ICRA]BB+ (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB- %
2	Cash Credit	Long-term	126.00	22.50	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ &	[ICRA]BB+ (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB- %
3	Short-term Non-fund Based Limits	Short-term	80.00	18.48	[ICRA]A3+	[ICRA]A3	[ICRA]A4+&	[ICRA]A4+	[ICRA]A3+	[ICRA]A3 %
4	Unallocated	Short-term	20.00	-	[ICRA]A3+	-	-	-	-	-

&= Under watch with developing implications *% = Under watch with positive implications*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Cash Credit	Simple
Short-term Non-fund Based Limits	Simple
Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan-I	Sep 2013	NA	FY2022	29.7	[ICRA]BBB(Stable)
NA	Term Loan-II	Mar 2017	NA	FY2026	262.6	[ICRA]BBB(Stable)
NA	Term Loan-III	Mar 2019	NA	FY2025	130.5	[ICRA]BBB(Stable)
NA	Corporate Loan	Apr 2020	NA	FY2024	21.3	[ICRA]BBB(Stable)
NA	Covid Ad-hoc line	Apr 2020	NA	FY2024	9.0	[ICRA]BBB(Stable)
NA	Cash Credit	NA	NA	-	126.00	[ICRA]BBB(Stable)
NA	Short-term non-fund based limits	NA	NA	-	80.00	[ICRA]A3+
NA	Unallocated	NA	NA	NA	20.00	[ICRA]A3+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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