September 22, 2022

Gold Plus Glass Industry Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	327.11	271.46	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+ (Stable)
Cash Credit Facilities	150.00	115.00	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+ (Stable)
Non-fund Based Limits	56.00	15.00	[ICRA]A2+; Upgraded from [ICRA]A2
Fund-based Limits	0.00	50.00	[ICRA]A- (Stable)/[ICRA]A2+; Upgraded from [ICRA]BBB+ (Stable)/[ICRA]A2
Total	**533.11**	**451.46**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of Gold Plus Glass Industry Limited (GPGIL) and its subsidiary, Gold Plus Float Glass Private Limited (GPFGPL) (together hereafter referred to as the company/Gold Plus), while assigning the credit ratings. GPFGPL, in addition to being a 99.94% subsidiary of GPGIL, has significant operational and financial linkages with its parent, with the day-to-day operations of both entities being handled by the same management.

The rating action considers the continuation of Gold Plus's strong operational performance, characterised by a healthy traction in volumes and robust profitability margins; the healthy operating performance of the company is expected to continue over the near to medium term, supported by favourable industry dynamics resulting in improved pricing power for domestic float glass manufacturers. In addition to the favourable industry dynamics, the operating performance has also been supported by the company's efforts to augment profitability through efficiency gains and a healthy contribution of value-added glass in the overall sales, which has helped the company maintain operating margins ranging at ~30-32% on a continuous basis over the past 15-18 months. In addition to recording a healthy improvement in yields and profitability, Gold Plus has also managed its working capital cycle efficiently, thereby helping it reduce interest outgo and maintain a comfortable liquidity profile.

The company's profitability remains sensitive to the fluctuations in the prices and availability of fuel and key raw materials. However, ICRA draws comfort from the fact that despite significant hardening of fuel prices in the recent past led by geopolitical developments, Gold Plus has been able to pass on the same to customers through price hikes and maintain healthy contribution margins; in the current fiscal till date, the company has recorded an average realisation of ~Rs. 44,056/tonne and operating profit margin of ~31% in April-August FY2023 (provisional financials). Considering the energy-intensive nature of operations, the company's ability to protect its margins going forward, would remain a key rating sensitivity; the fact that the company's manufacturing lines at Roorkee are fuel fungible however provides some comfort.

At present, Gold Plus is the second-largest float 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 and has a pan India presence. Given the favourable industry dynamics and enhanced growth prospects, the company is amid capacity enhancement through a greenfield facility in South India (under GPFGPL), which would add incremental capacity of 1,900 TPD (to be added in phases and be fully commercialised by FY2025). The capex planned by the company entails significant investment of ~Rs. 2,385 crore; aided by the strong cash accruals, the debt: equity (internal accruals and equity raise from investors) mix for the project has been revised downwards to 1:1, thereby resulting in an improvement in the projected coverage indicators for the company. While the first tranche of equity infusion by investors (~Rs. 400 crore) has already been infused (March 2022), the second tranche of equity infusion (~Rs. 200 crore) is available for drawdown till March 2023. Additionally, the project debt for the capex has been recently sanctioned, with disbursement expected to commence soon. The project progress in on track, with the company expecting to commence production of the first line at the new unit in Karnataka towards the end of this fiscal.

Although the large capex plans would result in significant debt addition over the medium to long term (Total Debt/OPBITDA estimated to potentially peak in FY2023/FY2024 (at ~2.8-3.0 times) and consequent sizeable debt repayments, comfort is drawn from the long repayment tenure (repayments commencing from March 2025) and the significant incremental earnings prospects from the new facility, which are likely to aid servicing of the new loans. 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 the current expectations, would remain rating sensitivities.

ICRA notes that the company had filed a Draft Red Herring Prospectus for its Initial Public Offering in April 2022 and plans to raise up to Rs. 300 crore through fresh issue in addition to which, there is an offer for sale of 12,826,224 shares (16.95% stake). The company intends to utilise the proceeds from the issue to reduce its debt obligations and enhance liquidity profile. ICRA would also continue to monitor the developments in this regard.

The Stable outlook on the long-term rating factors in ICRA's expectation that Gold Plus would sustain the recent improvement in its 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.

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 capacity of 1,250 TPD, which has increased from 470 TPD after the capacity expansion and line refurbishment undertaken a few years back. The company's business profile is supported by experienced promoters and a sizeable market share in the float glass segment and has a pan India presence.

Healthy business prospects supported by regulatory policies and increasing acceptance of float glass in various industries – To support local manufacturers from lower-priced imports, the Government of India has undertaken several initiatives, such as levy of anti-dumping duty (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 helped alleviate pricing pressures in the industry, supporting improvement in realisations and margins. The Government has imposed other non-tariff measures such as the requirement of BIS certification for glass sold in India from April 2022, which also restricts dumping of cheap low-quality glass 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 and fixtures. The company's revenue growth prospects over the medium term are also expected to be supported by a proposed enhancement in capacity to 3,150 TPD from 1,250 TPD (expected to be enhanced in stages and become fully operational by FY2025).

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 past one year (average operating profit margin of ~32% over the past 12 months). Going forward, with dedication of one line towards value-added glass production, the product mix is expected to remain favourable. Further, the addition of a silver mirror line (recently commercialised) at its Roorkee plant will further enhance value added glass proportion in overall sales Gold Plus is the only float glass manufacturer in North India, which has 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 and planned over the medium term – The company had a high total debt to OPBDITA ratio (14.7 times in FY2020) owing to sizeable capex incurred over FY2018-FY2020, along with weakness in earnings and cash flow generation. After improving in FY2021 (TD/OPBITDA of 3.6 times), a robust improvement in profitability helped moderate the leverage as of March 2022 (TD/OPBDITA of 0.8 times as of March 2022). However, the leverage is expected to increase in FY2023, considering the significant ongoing debt-funded capex for setting up a greenfield facility in South India. Accordingly, with large capex plans ongoing (~Rs. 2,400 crore over the next two to three years), a sustained improvement in coverage indicators can only be expected only post FY2025; however the commencement of operations of the manufacturing lines (spread over Q4 FY2023-FY2024) would support the coverage indicators.

Sizeable debt repayments over near to medium term – Gold Plus has material debt obligations over the near to medium term, pertaining to debt availed for earlier capacity expansion/refurbishment. Additional debt drawdown (~Rs. 1,193 crore debt to be availed over the next 2-3 years) for the capex plans towards setting up lines in South India is also likely to lead to sizeable repayment obligations from FY2026 onwards pertaining to the same (repayments expected to commence from Q4 FY2025). However, ICRA takes comfort from the improvement in operations of the company, and the promoter support exhibited over the years, which should help the company absorb unforeseen disruptions, if any, in meeting its debt obligations. The company also pre-paid some of its long-term debt in H2 FY2022, aided by the strong improvement in performance, which provides comfort.

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 the volatility in fuel prices. Additionally, silica sand and soda ash account for 75-80% of the total raw material costs. Its profitability remains sensitive to the fluctuations in the prices and availability of these raw materials from the proximate sources. However, ICRA draws comfort from the fact that despite significant hardening of fuel prices and soda ash in the recent past, led by geopolitical developments, Gold Plus has been able to pass on the same to customers through price hikes and maintain healthy contribution 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 in the range of 550-600 TPD. This leads to lumpy capacity addition in the sector, which may impact float glass prices. This was visible during FY2018–FY2019, which witnessed a 43% growth in domestic capacity, leading to a significant decline in glass prices. 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 to medium 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 two years.

Liquidity position: Adequate

Gold Plus' liquidity position is adequate. Although debt repayments are sizeable at Rs. 95-100 crore/annum over the next two years, it is expected to meet the same comfortably from its internal cash flow generation. With two relatively new lines in operation, the near-term capex outgo for maintenance requirements would remain minimal. The capacity expansion plans, over the near to medium term, are anticipated to be funded primarily through incremental external funds (debt and equity infusion). Given the strong cash flow generation, the company's utilisation of working capital limits has remained low; over the past few months, however, as internal accruals have been deployed towards the construction of the Karnataka plant, the utilisation levels have increased. The same are expected to remain at moderate levels, post the disbursement of term loan for the ongoing project.

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 sustain its comfortable liquidity position, on a sustained basis.

Negative factors – The ratings may be downgraded, in case of any deterioration in earnings on account of muted sales or pricing/cost pressures, or in case of any larger-than-expected debt-funded capex, leading to weakening of credit metrics such as interest cover of less than 4.5 times and/or DSCR less than 2.0 times, on a sustained basis. Further, any deterioration of the company's liquidity position may result in a negative rating action as well.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology] [Rating Approach - Consolidation]
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has taken a consolidated view of GPGIL and its subsidiary, GPFGPL, while assigning the credit ratings, given the common management and significant operational and financial linkages among the entities. For arriving at the ratings, ICRA has considered the estimated consolidated financials of GPGIL. As on March 31, 2022, GPGIL had one subsidiary, details of which are enlisted in Annexure-2.

About the company

GPGIL, incorporated in 1985, is the second-largest float glass manufacturing company in India, with an annual production 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 in Roorkee (Uttarakhand). GPGIL primarily manufactures 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 (~51%), followed by East India (~21%), West India (~18%) and South India (~10%).

GPFGPL is a wholly-owned subsidiary of GPGIL. The subsidiary was set up to house the two new upcoming lines for manufacturing different kind of glasses at the new plant in Karnataka. Post the completion of the ongoing capacity expansion plans, the company's annual production capacity will increase to ~3,150 TPD.

Key financial indicators (audited)

Gold Plus (Consolidated)	FY2021	FY2022
Operating income	856.4	1,432.9
PAT	79.2	211.8
OPBDIT/OI	19.0%	32.6%
PAT/OI	9.2%	14.8%
Total outside liabilities/Tangible net worth (times)	1.5	0.5
Total debt/OPBDIT (times)	3.5	0.8
Interest coverage (times)	2.1	7.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years						
		Type	Amount rated (Rs. crore)	Amount outstanding as of Jun 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021			Date & rating in FY2020
					Sep 22, 2022	Dec 16, 2021	Jul 8, 2021	Mar 24, 2021	Dec 11, 2020	Sep 18, 2020 May 22, 2020	Apr 11, 2019
1	Term Loan	Long-term	271.46	271.46	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+&	[ICRA]BB+ (Negative)	[ICRA]BBB (Stable)
2	Cash Credit Facilities	Long-term	115.00	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ &	[ICRA]BB+ (Negative)	[ICRA]BBB (Stable)
3	Non-fund Based Limits	Short-term	15.00	-	[ICRA]A2+	[ICRA]A2	[ICRA]A3+	[ICRA]A3	[ICRA]A4+&	[ICRA]A4+	[ICRA]A3+
4	Fund-based Limits	Long-term/ Short-term	50.00	-	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-	-	-	-
5	Unallocated	Short-term	-	-	-	-	[ICRA]A3+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit Facilities	Simple
Non-fund Based Limits	Very Simple
Fund-based Limits	Simple

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 analysing 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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan - 1**	Nov 2021	NA	Mar 2025	67.56	[ICRA]A- (Stable)
NA	**Term Loan - 2**	Dec 2021	NA	Mar 2025	34.38	[ICRA]A- (Stable)
NA	**Term Loan - 3**	Dec 2021	NA	Sep 2025	169.52	[ICRA]A- (Stable)
NA	**Cash Credit Facilities**	NA	NA	NA	115.00	[ICRA]A- (Stable)
NA	**Non-fund Based Limits**	NA	NA	NA	15.00	[ICRA]A2+
NA	**Fund-based Limits**	NA	NA	NA	50.00	[ICRA]A- (Stable)/[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	GPGIL Ownership	Consolidation Approach
Gold Plus Glass Private Limited	Rated Entity	Full Consolidation
Gold Plus Float Glass Private Limited	99.94%	Full Consolidation

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About ICRA Limited:

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For more information, visit www.icra.in

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