March 24, 2021

Gold Plus Glass Industry Limited: Ratings upgraded to [ICRA]BBB-/A3; removed from rating watch with developing implications and Stable outlook assigned; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	465.25	453.14	[ICRA]BBB- (Stable); Upgraded from [ICRA]BB+ &; Removed from rating watch with developing implications and Stable outlook assigned
Cash Credit	112.39	126.00	[ICRA]BBB- (Stable); Upgraded from [ICRA]BB+ &; Removed from rating watch with developing implications and Stable outlook assigned
Short-term Non-fund Based Limits	49.79	100.00	[ICRA]A3; Upgraded from [ICRA]A4+ &; Removed from rating watch with developing implications
Total	**627.43**	**679.14**	

**Instrument details are provided in Annexure-1; & Under watch with developing implications*

Rationale

The ratings of Gold Plus Glass Industry Limited (Gold Plus) had been placed on rating watch with developing implications pending the implementation of the resolution plan (RP) submitted by the company to its bankers in December 2020. However, post invocation of the RP on December 2, 2020 and signing of the Inter-Creditor Agreement (ICA) on December 22, 2020, the company withdrew the RP application, considering the significant improvement in its operating performance, which negated the requirement for a debt restructuring. Accordingly, ICRA has removed the ratings from watch with developing implications.

The upgrade in the ratings takes into consideration the significant and sustained improvement in the company's operating performance over the past few months, with healthy traction in volumes and sharp improvement in profitability. Additionally, with efficient working capital management, its cash flow generation has improved substantially, enabling Gold Plus to meet sizeable debt repayment obligations over the past couple of quarters and still maintain an adequate liquidity buffer. 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 incumbents like Gold Plus, which is currently the second largest glass manufacturing company in India (by installed capacity, having an installed capacity of 1,250 tonnes per day (TPD)). It enjoys a sizeable market presence in the clear float glass segment, especially in North and East India.

Post a challenging two years in FY2019 and FY2020, when the company's operations had been impacted by weak operating performance of Line I and subsequently, its refurbishment, as well as high fuel prices, and pandemic-induced disruptions, Gold Plus has reported a significant turnaround in the recent months. Supported by availability of two new lines for production and healthy demand from the domestic market, it has been reporting average monthly sales of 33,500 MT over the period from July 2020 to February 2021, against the monthly average of 23,278 MT in FY2020. 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 have increased to 19% in August 2020 and further to 26% in February 2021, against 8% in FY2020. Going forward, with two lines available for production, the company has dedicated one line for value-added glass production exclusively, which augurs well for further increase in realisation and margin as the product mix improves.

Furthermore, the company has benefited from the imposition of anti-dumping duty (ADD) on imports of clear glass from Malaysia in August 2020, thereby providing scope for increased volumes as well as better pricing for domestic players such as Gold Plus. Additionally, the Government has extended non-tariff related support measures such as BIS certification requirement from January 2021 onwards, which would further curtail dumping of glass in India at low prices going forward.

Given these favourable developments, Gold Plus has been reporting robust operating performance over the recent months. Despite the fact that gas prices, which account for ~20% of operating costs, have been firming up over the past few 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.

Notwithstanding the recent improvement in operating performance, the ratings continue to be constrained by the company's sizeable debt servicing obligations over the medium term. Gold Plus has debt repayment obligations of Rs. 110-135 crore annually during the next three fiscals and associated sizeable interest outgo. Given the large debt repayments, ICRA believes the sustainability of the recent traction in volumes and margins would be a key monitorable.

While the company's financial risk profile has been historically weak, characterised by a leveraged balance sheet and weak credit metrics, on account of sizeable capital expenditure undertaken for setting up Line II and refurbishing Line I, it has improved, to some extent, in the current fiscal, supported by the improved profitability and cash flow generation. Accordingly, Total Debt/OPBITDA, which had weakened considerably to 14.7 times in FY2020, is expected to improve to approximately 3.5-4 times in FY2021. The gearing, however, would remain primarily unchanged (1.5 times in FY2020) on account of the existing debt levels, and any material improvement is anticipated over the medium term only, as scheduled debt repayments aid reduction in the overall debt levels.

ICRA notes that the company is contemplating further capacity expansion through a greenfield facility over the medium term, in order to encash on the improved demand scenario in the market. While the project details are in the initial stages and yet to be finalised, ICRA would continue to monitor developments on this front including the project size and timelines and funding mix to be adopted, as these would have a material impact on its credit metrics. Accordingly, this would remain a key rating sensitivity and would be monitored going forward.

The Stable outlook factors in ICRA's expectation that Gold Plus would sustain the recent improvement in operating performance going forward, with traction in volumes and healthy profitability indicators, likely to help the company generate healthy cash flows in order to meet its sizeable debt repayment. Overall, it is expected to withstand margin pressures, supported by the improved pricing power in the market due to favourable industry dynamics.

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 in the recent years. 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 an installed 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.

Improving 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 taken several initiatives in the recent past, such as levy of anti-dumping duty. The imposition of ADD on imports from Malaysia in the current fiscal has strengthened the business prospects of the 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 would restrict any 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, which has two manufacturing lines under same unit, allowing it to cater to the varied requirements of dealers in a single consignment.

Credit challenges

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.

Financial leverage to remain high due to sizeable capital expenditure incurred in recent past – The company has a high total debt to OPBDIT ratio (14.7 times in FY2020) owing to sizeable capital expenditure incurred in the recent past, along with weakness in earnings and cash flow generation. Although it has improved in the current fiscal on the back of improvement in profitability, any material improvement in credit metrics and coverage indicators is only expected over the medium term, as scheduled debt repayments help in reducing the overall debt levels (Total Debt/OPBDIT likely to strengthen to the range of 1.3-1.6 times by FY2023).

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 the 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, and no new lines announced by any of the players, the current situation of supply shortage in the industry is expected to continue over the near term. Furthermore, any incremental capacity that is commercialised going forward is anticipated to primarily aid import substitution.

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 also remain minimal. Capacity expansion plans, if any, 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 the recent months, supported by the improved cash flow generation. Gold Plus had a buffer of Rs. 25.8 crore from unutilised limits as on February 28, 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 and improve its operating performance, with healthy profitability margins. Furthermore, improvement in its liquidity position and deleveraging of its balance sheet, on a sustained basis, would also remain critical for a rating upgrade.

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 any significant debt-funded capex, which leads to weakening of credit metrics such as interest cover less than 2.8 times on a sustained basis. Furthermore, any deterioration of the company's liquidity position also has 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 tonnes per day (TPD). The company set up its first glass manufacturing line in January 2009 with an annual capacity of 470 TPD, which got further augmented in 2018 with its second greenfield facility of 700 TPD capacity. The Line I was subsequently refurbished in October 2019 with an increased capacity of 550 TPD. Both the units are located in Roorkee (Uttarakhand). It primarily manufacturers clear float glass for architectural applications. Post 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 the East (17-18%) and 26% from South and West India, and the rest from exports.

Key financial indicators

Gold Plus	FY2020 (audited)	11M FY2021 (provisional)	Jul 2020 to Feb 2021 (provisional)
Operating Income (Rs. crore)	630.2	758.4	676.5
PAT (Rs. crore)	-78.1	1.2	40.3
OPBDIT/OI (%)	6.4%	18.0%	20.5%
PAT/OI (%)	-12.4%	0.2%	6.0%
Total Outside Liabilities/Tangible Net Worth (times)	2.3	NA	NA
Total Debt/OPBDIT (times)	14.7	4.2	3.0
Interest Coverage (times)	0.6	2.2	3.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA:

- 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 Feb 28, 2021 (Rs. crore)	Date & Rating in				Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Mar 24, 2021	Dec 11, 2020	Sep 18, 2020	May 22, 2020	Apr 11, 2019	Feb 14, 2019	-
1	Term Loan	Long-term	453.14	453.14	[ICRA] BBB- (Stable)	[ICRA]BB+ &	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB- %	-
2	Cash Credit	Long-term	126.00	95.81	[ICRA] BBB- (Stable)	[ICRA]BB+ &	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB- %	-
3	Short-term Non-fund Based Limits	Short term	100.00	24.09	[ICRA] A3	[ICRA]A4+ &	[ICRA]A4+	[ICRA]A4+	[ICRA]A3+	[ICRA]A3 %	-

& - Under watch with developing implications

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

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	-	126.0	[ICRA]BBB-(Stable)
NA	Short-term non-fund based limits	NA	NA	-	100.0	[ICRA]A3

Source: *Company*

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

K. Srikumar
+91 44-4596 4318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
+91 124 4545 808
rohan.kanwar@icraindia.com

Sruthi Thomas
+91 124 4545 822
ruthi.thomas@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

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