

April 21, 2017

Modern Glass Industries

Instrument*	Rated Amount (in crore)	Rating Action
Fund Based Limits	31.61	[ICRA]BB- (Stable), reaffirmed
Non Fund based Limits	3.00	[ICRA]A4, reaffirmed
Unallocated Limits	0.39	[ICRA]BB- (Stable) / [ICRA]A4, reaffirmed
Total	35.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed its long-term rating of [ICRA]BB- (pronounced ICRA double B minus) on the Rs. 31.61-crore fund-based facilities and the short-term rating of [ICRA]A4 (pronounced ICRA A four) on the Rs 3-crore non-fund based facilities of Modern Glass Industries (MGI). ICRA has also reaffirmed its rating of [ICRA]BB-/A4 on the Rs 0.39 crore unallocated limits of MGI. The outlook on the long-term rating is 'Stable'.

Rationale

ICRA's rating reaffirmation takes into account the improved scale of operations as MGI ramped up its new manufacturing facility. ICRA's ratings also consider the firm's healthy operating margins on account of good product mix and improvement in working capital intensity. The ratings continue to factor in the long track record of the promoters, of over three decades, in the glass industry by virtue of their association with the group companies engaged in a similar line of business.

However, the ratings are constrained by MGI's adverse capital structure and weak coverage indicators on account of the debt-funded capital expenditure incurred in FY2015 for setting up a new unit. The ratings further take into account the long working capital cycle, which in the backdrop of expansion in scale has resulted in high limit utilisation. The ratings also factor in the partnership constitution of the firm, which exposes it to risks related to withdrawal of capital, risk of dissolution etc.

Key rating drivers

Credit strengths

- Vast experience of the promoters in the glass manufacturing industry; presence in Firozabad glass industry which is established
- Healthy revenue growth in FY2016 backed up by timely ramp up of operations from new manufacturing facility
- Healthy operating margins; however, eroded by high interest outgo

Credit weaknesses

- Adverse capital structure and moderate coverage indicators
- High limit utilisation given the strong growth in last two years
- Risk associated with partnership concerns such as withdrawal of capital and dissolution of firm

Description of key rating drivers:

The firm started operating a new manufacturing facility from January 2015 onwards. Consequently, its operating income increased from Rs 19.42 crore in FY2015 to Rs 49.12 crore in FY2016. The firm's operating profit margins also improved from 17.4% in FY2015 to 18.6% in FY2016 because of better product mix (glass bulb shells and glass tubes as compared to only glass bangles and glass wares earlier). However, higher interest and depreciation outgo has resulted in weaker net margins. The net working capital requirement of the firm improved in FY2016, with the NWC/OI ratio of 28%, owing to decrease in debtor and inventory days. However, the working capital limit utilisation has remained high, given the substantial growth in the last two years. The gearing level of the firm remains high, although it improved from 5.75 times as on Mar 31, 2016.

Going forward, the firm's ability to sustain its revenue growth profitably and improve its liquidity position will remain the key rating sensitivity.

Analytical approach: While assigning the ratings, ICRA has taken a standalone view from the operational and financial profile of MGI.

Links to applicable criteria

<http://www.icra.in/Files/Articles/Rating%20Meth%20Mar%202017.pdf>

About the company:

MGI is a Firozabad (Uttar Pradesh) based firm, incorporated in 1984. MGI's partners are Mr. Balkrishnan Gupta, Mrs Urmila Bansal, Mrs Neeta Gupta and Mrs Sushma Gupta. The other group companies include Adarsh Kanch Udyog Pvt Ltd, Om Glass Works Pvt Ltd and Advance Lamp Components and Table Wares Pvt Ltd. The firm produces glass bulb shells and glass tubes, which are used in the electrical industry. The firm shifted to a new unit in December 2014, located at UPSIDC (Uttar Pradesh state Industrial Corporation), Jalesar Road, Firozabad. The installed production capacity of the new unit is 70 metric tonnes (MT) per day of glass.

MGI recorded a net profit of Rs. 0.36 crore on an operating income of Rs. 49.12 crore for the year ending March 31, 2016. Also, as per provisional numbers for 11 months FY2017, MGI recorded an operating income of Rs 44.00 crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years:
Table:

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years	
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				April 2017	October 2015	NA
1	Fund based	Long Term	31.61	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	NA
2.	Non fund based	Short term	3.00	[ICRA]A4	[ICRA]A4	NA
3.	Unallocated Limits	Long term/ Short term	0.39	[ICRA]BB-(Stable)/A4	[ICRA]BB-(Stable)/A4	NA

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
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	10.00	[ICRA]BB - (Stable)
Term Loan	2014		2021	21.61	[ICRA]BB - (Stable)
Letter of credit				3.00	[ICRA]A4
Unallocated Limits				0.39	[ICRA]BB - (Stable) /[ICRA]A4

Contact Details

Analyst Contacts

Sabyasachi Majumdar

+0124-4545 304

sabyasachi@icraindia.com

Sheetal Sharad

+0124-4545 374

sheetal.sharad@icraindia.com

Manish Ballabh

+0124-4545 812

manish.ballabh@icraindia.com

Vipul Jain

+0124- 4545 832

vipul.jain@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

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.

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500