



Samtel Glass Limited

RATING HISTORY

	Amount in Rs. million	Rating Outstanding	Previous Ratings	
		May 2010	March 2009	March 2008
Term Loans	336	LB-	LB-	
Fund Based Limits	182.5	LB-	LB-	
Proposed bank facility	39.5	LB-	LB-	
Non-Fund Based Limits	219.0	A4	A4	

ICRA has reaffirmed the LB- (pronounced as L B minus) rating to the Rs. 336.0 million term loans, Rs. 182.5 million fund based limits and Rs. 32.5 million proposed bank facilities of Samtel Glass Limited (SGL)†. ICRA has also reaffirmed the A4 (pronounced as A four) rating to the Rs. 219 million non-fund based limits of SGL†.

The ratings are constrained by SGL's stretched liquidity position resulting in delays in debt repayment, pressures on its realisations on account of intensely competitive nature of the industry and its high client concentration risk as more than 90% of SGL's sales are to a single customer namely Samtel Colour Limited (SCL). Moreover the weak credit profile SCL exposes SGL to high counterparty risks. While assigning the rating, ICRA has also noted the increasing consumer preference towards Flat Panel Displays which can further impact SGL's margins and volumes. Nevertheless the rating continues to derive comfort from Samtel Group's leading position in the domestic colour picture tubes (CPT) market, its experienced management and improvement in its profitability in the current financial year owing to imposition of anti-dumping duty on imported tubes and cost saving

† For complete rating scale and definitions, please refer to ICRA's Website, www.icra.in, or any of the ICRA Rating Publications

initiatives by the company. Going forward, shift in demand towards FPDs and SGL's ability to meet its debt obligations in a timely manner will be the key rating sensitivity factors.

SGL was incorporated in 1993 by Mr Satish Kaura. The company is engaged in the information display segment and is involved in the manufacture of glass parts for TV and display tubes. It derives more than 98% of its revenue through the sale of colour funnels. Colour funnels are used as display devices in traditional Cathode Ray Tube (CRT) based televisions. SGL has an installed capacity of 118.46 lakh colour funnels. The company sells more than 90% of its output to Samtel Colour Limited (SCL), a group company. SCL is one of the leading players of CPTs in the domestic market with close to 40% market share. However SCL's financial risk profile has deteriorated over the years owing to intense competition from imported tubes and decline in CPT realizations over the years. The weak credit profile of SCL exposes SGL to counterparty risks. However, this risk is partly mitigated by the fact that SCL has made all its payments to SGL on time in the past. Moreover, the credit period extended to SCL has reduced over the years as reflected by decline in SGL's debtor

‡ SCL's changed its financial year from Mar ending to June ending in 2007

days from 60 days in FY07‡ (Apr 06- June 07) to 42 days in FY09 (July 08- June 09).

SGL's glass funnels are used in Cathode Ray Tubes (CRT) based TVs only. Thus the company faces threat from shift in demand towards FPDs such as Liquid Crystal Display (LCD) and Plasma televisions. Globally the demand for CRT based television has declined significantly; however in India, the market for CRT TVs is still expanding owing to the high price differential between CRT TVs and FPDs. Going forward, SGL's business prospects will remain susceptible to shift in demand to FPDs. To mitigate this risk, SGL is in the process of creating capabilities to produce glass for avionic tubes used in aerospace industry, auto glass, fog lenses etc. However its success in these areas remains to be seen.

The demand and prices for glass funnels are derived from CRT prices. The prices declined by about 50% in 2006 owing to drop in global prices of CRT on account of overcapacity in the industry and decline in global demand. Many players in the glass industry shut down their business owing to non-remunerative prices and stiff competition from imports. Like other players, SGL's profitability and liquidity position was severely impacted resulting in irregularities in debt servicing. Though the performance of the company has improved in the current financial year,



there are delays in debt servicing on account of cash flow mismatches.

SGL's operating income registered a year-on-year increase of 22% from Rs. 1.19 billion in FY08§ to Rs. 1.46 billion in FY09 primarily due to higher sales volumes. In August 2008, the Government of India imposed anti-dumping duty of 10%, 12% and 22% on 14 inch, 21 inch and 29 inch CPTs respectively. This led to increase in CPT prices and consequently glass funnel prices (as glass funnel prices are dependent on CPT prices). The operating margins of the company also improved from 15.39% to 19.77% during the same period owing to cost saving initiatives by the company like rationalization of workforce. Moreover after the global economic slowdown in September 2008, the litharge prices and freight costs also declined which had a favourable impact on the company's profitability. Growth in topline coupled

§ SGL's has a June ending financial year

with increase in margins resulted in increase in operating profits from Rs. 183.7 million in FY08 to Rs. 288.9 million in FY09. However, high depreciation and interest costs resulted in net loss of Rs. 12.6 million in FY09. In 9M FY10, SGL has reported PBT of Rs. 84.4 million on net sales of Rs. 1.14 billion.

SGL's gearing stood at 0.76 times as on June 30, 2009. The debt coverage indicators are moderate as reflected by interest coverage ratio of 2.36 times in FY09. However SGL's tight liquidity position has resulted in irregularities in debt servicing and high utilisation of working capital facilities.

The working capital intensity of the company as reflected by the ratio of net working capital to operating income stood at 18% in FY09. The working capital requirements of SGL are partly supported by favorable credit terms extended by the creditors. The creditor days have

varied between 120-145 days over the last four years.

Company Profile: Samtel Glass Limited (SGL), a part of Samtel Group, was incorporated in 1986 as a joint venture between Corning Inc. (USA), Samsung Corning Korea and Samtel Group of India. In 2005, Corning Inc., USA quit from the Joint Venture. Currently, Samtel Group holds about 83% equity of SGL and the rest 17% is held by financial institutions and Samsung Corning, Korea. SGL started commercial operations in 1993 with the manufacture glass parts for TV and display tubes. The company is currently involved in the manufacture of glass funnels for colour TVs. The manufacturing unit of the company is located at Kota, Rajasthan.

May 2010

KEY FINANCIALS

	FY07	FY08	FY09
Operating income (OI)	1484.1	1193.3	1461.1
Operating profits before depreciation, interest, tax and amortisation (OPBDITA)	104.2	183.7	288.9
Profit after tax (PAT)	-148.7	-87.0	-12.6
Net Cash Accruals (NCA)	58.9	79.2	150.9
OPBDIT/OI (%)	7.02%	15.39%	19.77%
PAT/OI (%)	-10.02%	-7.29%	-0.86%
Return on capital employed (%)	-2.25%	2.08%	6.98%
Net worth	898.2	806.8	794.2
Total debt	692.0	694.2	607.5
Gearing (times)	0.77	0.86	0.76
Interest coverage (times)	0.73	1.52	2.36
NCA/Debt (%)	7%	11%	25%
Net Working Capital /OI (%)	5%	9%	6%

Note: Amounts in Rs. Millions



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