Piramal Glass Private Limited

November 02, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	200.0	350.0	[ICRA]BBB+ (Positive); assigned /outstanding
Short-term, Non-fund Based Limits	150.0	150.0	[ICRA]A2; outstanding
Short-term Loans	500.0	500.0	[ICRA]A2; outstanding
Long-term / Short-term, Fund-based Limits^	315.0	315.0	[ICRA]BBB+ (Positive) / [ICRA]A2; outstanding
Total	**1,165.0**	**1,315.0**	

*Instrument details are provided in Annexure-1
^Fund-based limits are completely interchangeable between long-term and short-term exposures such that the total fund-based limits utilisation should not exceed Rs. 315 crore

Rating action

ICRA has assigned the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus)[1] to the Rs. 350.0-crore[2] (enhanced from Rs. 200.0 crore) long-term loans of Piramal Glass Private Limited (PGPL). ICRA also has a short-term rating of [ICRA]A2 (pronounced ICRA A two) outstanding on the Rs. 150.00-crore non-fund based limits and the Rs. 500.0-crore short-term loans of PGPL. ICRA also has a long-term rating of [ICRA]BBB+ and a short-term rating of [ICRA]A2 outstanding on the Rs. 315.0-crore fund-based limits of PGPL. The outlook on the long-term rating is Positive.

Rationale

While assigning the ratings, ICRA has taken a consolidated view of PGPL along with its seven subsidiaries.

The ratings factor in the expected improvement in the revenue growth of the company in the near to medium term, led by the increased demand in the premium perfumery segment as well as in the speciality food and beverages segment (SF&B) in the US. While the revenue growth in the cosmetics and perfumery (C&P) segment had remained sluggish over the last two years due to subdued end-user demand in the nail polish segment, revival in demand in the premium perfume segment is being witnessed since Q3 FY2018. Coupled with healthy growth in the SF&B segment in the US, this is expected to adequately support the revenue growth of the company over the medium term. The ratings also factor in the established presence of the company in the glass bottle manufacturing business as well as its market leadership position in the nail polish segment and healthy market share in the pharmaceutical glass segment. ICRA also takes note of PGPL's increasing presence in the relatively high margin, premium C&P segment. The ratings also favourably factor in the comfortable liquidity position of PGPL as well its financial flexibility and management strength as an Ajay Piramal Group company.

The glass packaging industry is capital intensive in nature, requiring regular capital expenditure for relining furnaces, capacity augmentation as well as for routine maintenance. Despite the investments, the company has been able to maintain its financial profile aided by its healthy profitability; although some moderation was witnessed in FY2018 owing to profitability pressures from rising energy and freight costs. The company has proposed sizeable capital expenditure

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*
[2] *100 lakh = 1 crore = 10 million*

spends for the next two years, which is expected to be partly funded through debt. While the cost pressures (owing to rising energy and freight costs) continue in FY2019 as well, the profitability levels and financial profile of the company are expected to remain adequately supported by the increased revenue growth. This is a key rating sensitivity.

The ratings continue to remain constrained by PGPL's high working capital intensity of operations due to high inventory holding requirements as well as the susceptibility of its profits to volatility in raw material and fuel prices, and foreign currency fluctuations, although the latter risk is partly mitigated by PGPL's well-defined hedging policies. The company also continues to face demand headwinds in the nail polish segment as well as the SF&B segment in Sri Lanka.

Outlook: Positive

The Positive outlook factors in the expected improvement in the revenue growth of the company in the near to medium term led by the increased demand for premium perfumery as well as SF&B in the US. This is further expected to help the company sustain its financial profile, amid rising energy and freight costs. The outlook may be revised to Stable, if the revenue growth is lower than expected, or if the credit profile of the company weakens due to higher than estimated debt or lower than estimated accruals.

Key rating drivers

Credit strengths

Expected improvement in revenue growth – The revenue growth of the company had remained sluggish over the last two years due to the subdued demand for its C&P and SF&B products in Sri Lanka. While end-user demand for nail polish is expected to remain sluggish, increase in demand for premium perfumes is being witnessed since Q3 FY2018. Coupled with healthy growth in the SF&B segment in the US, this is expected to adequately support PGPL's revenue growth over the medium term.

Global player in glass packaging industry – PGPL's manufacturing operations are spread across India, Sri Lanka and the US. It derives revenues from its C&P, pharmaceutical and SF&B segments. C&P contributed around 37% to its revenues in FY2018, followed by the pharmaceutical (40%) and SF&B (24%) segments in FY2018.

Market leader in nail polish segment – PGPL enjoys market leadership position in the nail polish segment and a healthy market share in the pharmaceutical glass segment. The company enjoys a small but growing presence in the premium cosmetics segment as well, which accounts for the bulk of the global C&P market.

Part of Mumbai-based Ajay Piramal Group lends financial flexibility and management strength – PGPL is part of the Mumbai-based Ajay Piramal Group of companies. The Group is a global business conglomerate with interests in pharmaceuticals, financial services, information management, glass packaging, and real estate. The Group has a presence across 30 countries and over 100 markets.

Credit challenges

Profitability levels susceptible to fluctuations in raw material and fuel prices, and foreign currency fluctuations – The operating profitability has moved in line with the fluctuations in raw material (primarily soda ash) and fuel prices. PGPL has been able to maintain its raw material costs within reasonable levels with a mix of imports as well as domestic purchase. While in FY2016 and FY2017, the company received some relief by way of correction in energy prices, rising natural gas prices impacted its operating profit margin in FY2018. The company is, however, in the process of taking various steps to control power and fuel costs, which will mitigate the risk to certain extent, going ahead. PGPL's profitability is also exposed to foreign exchange fluctuation risks, as it imports raw materials, exports goods, and has foreign currency borrowings. However, the risk is mitigated by hedging a significant portion of its net foreign exchange exposure through forward contracts.

Sizeable proposed capital expenditure – The glass packaging industry is capital intensive in nature, requiring regular capital expenditure for relining furnaces, capacity augmentation as well as for routine maintenance. The company has proposed sizeable capital expenditure spends for the next two years (~Rs. 400 crore in FY2019 and ~Rs. 300 crore in FY2020), which is expected to be partly funded through debt. Notwithstanding the cost pressures in FY2019 owing to rising energy and freight costs, the profitability levels and financial profile of PGPL are expected to remain adequately supported by its increased revenue growth. This is a key rating sensitivity.

Working capital intensive operations due to high inventory holding requirements – Due to the nature of the business, PGPL's inventory holding period is high, resulting in high working capital intensity of operations.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodology as indicated below**.**

Links to applicable criteria:
Corporate Credit Rating Methodology

About the company

PGPL is a leading player in the packaging glass industry, which caters to the pharmaceutical, C&P and SF&B industries. PGPL has seven subsidiaries, of which two—Piramal Glass Ceylon PLC and Piramal Glass USA Inc.—are operating subsidiaries and own manufacturing locations in Sri Lanka and the US, respectively. The other subsidiaries were primarily set up either to develop PGPL's exports or as marketing companies in the UK and Europe. PGPL has five manufacturing locations—two each in India and the US, and one in Sri Lanka—with a total capacity of 1,410 tons per day (TPD, augmented from 1,370 TPD in FY2016).

Incorporated in 1974, PGPL was acquired by the Piramal Group in 1984. In 1990, it was merged with Piramal Healthcare Limited (PHL, erstwhile Nicholas Piramal India Limited), and in 1998, the glass division was spun off to a subsidiary. Subsequently, private equity (PE) investors picked up 46% stake in this subsidiary. After restructuring operations, in July 2003, PHL divested its 54% holding in PGPL to a new subsidiary, Kojam Fininvest, which was subsequently listed. This was followed by the merger of Kojam Fininvest into PGPL and the merged entity was later re-listed as Piramal Glass Limited in the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) with effect from February 2008. It was delisted from both stock exchanges effective from July 2014. The status of the company was changed to Private Limited with effect from December 7, 2017.

For the 12 months that ended on March 31, 2018, PGPL (consolidated) reported a profit after tax (PAT) of Rs. 171.9 crore on an operating income (OI) of Rs. 2,145.4 crore, as against a PAT of Rs. 147.4 crore on an OI of Rs. 2,176.1 crore for the 12 months that ended on March 31, 2017.

For the three months that ended on June 30, 2018, PGPL (consolidated, unaudited) reported a PAT of Rs. xxx crore on an OI of Rs. xx crore.

Key financial indicators (audited, consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	2,176.1	2,145.4
PAT (Rs. crore)	147.4	171.9
OPBDIT/ OI (%)	22.4%	20.0%
RoCE (%)	18.8%	17.2%
Total Debt/ TNW (times)	1.8	1.4
Total Debt/ OPBDIT (times)	2.3	2.6
Interest Coverage (times)	5.5	5.1

Source: Piramal Glass Private Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: NoneRating history for last three years:

			Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Ratin	Date & Ratin	Date & Rating in FY2018	Date & Rating in FY2017		Date & Rating i FY2016
					November 2018	August 2018	August 2017	January 201	November 2016	August 2015
1	Term Loans	Long-term	350.0	246.3	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
2	Fund-based facilities^	Long-term / Short-term	315.0	-	[ICRA]BBB+ (Positive)/ [ICRA}A2	[ICRA]BBB+ (Positive)/ [ICRA}A2	[ICRA]BBB+ (Positive)/ [ICRA}A2	[ICRA]BBB+ (Positive)/ [ICRA}A2	[ICRA]BBB+ (Positive)/ [ICRA}A2	[ICRA]BBB+ (Stable)/ [ICRA}A2
3	Non-fund Based facilitie	Short-term	150.0	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	Term Loans	Short-term	500.0	225.0	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

** As on September 30, 2018*

^Fund-based limits are completely interchangeable between long-term and short-term exposures such that the total fund-based limits utilisation should not exceed Rs. 315.0 crore

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
-	Long-term Loan-1	March 2014	9.50%	March 2019	50.0	[ICRA]BBB+ (Positive)
-	Long-term Loan-2	March 2016	9.05%	March 2020	150.0	[ICRA]BBB+ (Positive)
-	Long-term Loan-3	September 2017	8.45%	March 2022	150.0	[ICRA]BBB+ (Positive)
-	Short-term, Non-fund Based Limits	-	-	-	150.0	[ICRA]A2
-	Short-term, Loans	-	-	-	500.0	[ICRA]A2
	Long-term / Short-term, Fund-based Limits	-	-	-	315.0^	[ICRA]BBB+ (Positive) / [ICRA]A2

^Fund-based limits are completely interchangeable between long-term and short-term exposures such that the total fund-based limits utilisation should not exceed Rs. 315 crore

Source: Piramal Glass Private Limited

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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.

For more information, visit www.icra.in

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