Gold Plus Glass Industry Limited

February 14, 2019

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	533.56	[ICRA]BBB-%; Assigned
Cash Credit	106.04	[ICRA]BBB-%; Assigned
Short-term Non-fund Based Limits	49.79	[ICRA]A3%; Assigned
Total	**689.39**	

*Instrument details are provided in Annexure-1; % reflects ratings are on watch with positive implications

Rationale

The assigned ratings factors in the company's position as the third largest manufacturer of float glass in India, improvement in capital structure of the company following equity infusion from Premji Invest and favourable growth prospects supported by increasing acceptance of float glass as an alternate to other building materials. The ratings are placed on watch with positive implications because the company is in the process of availing a fresh term loan from its existing lender(s) which will strengthen the company's liquidity profile by helping it meet its capital expenditure and debt repayment obligations. However, the ratings are constrained by the high total debt to OPBDIT ratio due to sizeable capital expenditure, exposure to volatility in fuel cost, competition from relatively cheaper imports and the cyclical nature of the float glass industry. Moreover, the company's share of revenues from value added glass such continues to be low.

Gold Plus Glass Industry Limited has a healthy business profile supported by experienced promoters with over three decades of experience in the glass industry, and sizeable market presence in the clear float glass segment, especially in North and East India. Post commencement of its second manufacturing line from February 2018 onwards, the company became the third largest glass manufacturing company in India (by manufacturing capacity), behind Saint Gobain and Asahi India. The capacity enhancement is expected to enable the company to enter the tinted glass segment which garners higher realizations and accordingly superior profit margins as compared to clear glass.

The assigned rating also considers the steady demand for float glass in the country, which will support the company's revenue growth, combined with capacity expansion of its Line-1 to 550 TPD post its refurbishment, and increase in share of value added glass in its portfolio. However, the profitability of the company will be sensitive to fluctuations in fuel cost (28% of operating income in FY2018, 40% in H1 FY2019) and raw material costs (32% of operating income in FY2018, 37% in H1 FY2019) and the ability of the glass industry to pass on the adverse impact of inflationary pressures to its customers. Additionally, glass imports from countries such as Malaysia and Egypt will continue to provide competition to the domestic glass manufacturers. However, likely implementation of certain non-tariff regulations such as mandatory BIS standard requirement in the near-term could mitigate the risk to a certain extent.

In August 2018, Premji Invest acquired a 19% stake (in the form of CCPS) in Gold Plus for a consideration of Rs. 400 crore. The equity infusion from Premji Invest has helped the company to improve its capital structure, repay part of its debt obligations and provide funding for its capital expenditure plans related to refurbishment of Line-1, besides support working capital requirements. Besides the monetary support, Premji Invest also provides operational support to the company in improving its manufacturing processes.

However, the rating is constrained by Gold Plus's high total debt to OPBDIT ratio (8.2 times as on September 30, 2018) because of sizeable debt funded related to its capital expenditure plans and decline in earnings. The total debt of the company is expected to stay at elevated levels in FY2020 because its first line will undergo refurbishment from April 2019 which will involve a total capital expenditure of Rs. 250 crore. The improvement in its credit metrics will be sensitive to the company's ability to improve its profit margins significantly in the near-term and quick stabilization of its first line after its refurbishment. Although the closure of line 1 for first half of FY2020 will constrain revenue growth, the profitability indicators are expected to improve subsequently because post refurbishment line 1 will be 15-20% more fuel efficient.

The company's liquidity profile is constrained by the capital expenditure obligations for refurbishment of Line-1 and significant debt repayments in the next few years. However, the company is in the process of receiving a sanction for Rs. 125 crore term loan from its existing lender(s) which will strengthen its liquidity profile by supporting its capital expenditure obligations in FY2020. ICRA will closely monitor the developments and take a rating action accordingly.

Outlook: Ratings on watch with positive implications

The ratings have been placed on 'watch with positive implications' because the company is in advanced discussion with its existing lender(s) for receiving a sanction for Rs. 125 crore term loan, which will support the company's liquidity profile. The ratings are most likely to get upgraded once the sanction comes through. The outlook maybe revised to Stable if the existing lenders do not sanction the term loan under discussion.

Key rating drivers

Credit strengths

Amongst the Top-3 players in the domestic float glass industry - Gold Plus is the third largest manufacturer of float glass (by capacity) in India. The company's business profile is supported by experienced promoters and sizeable market share in the clear glass segment, especially in North & 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 second largest player with an installed capacity of 1,250 TPD. Other key players include Gujarat Guardian ([ICRA]AA(Stable)) and HNG Float.

Recent capacity addition to allow company to manufacture value-added glass and improve margins - The company commenced operations on its new line in February 2018 which is expected to facilitate its entry into the tinted glass segment. This is expected to strengthen the company's business and financial profile because tinted glass has higher realizations and better profit margins as compared to clear glass. At present, the company generates nearly 90% of its turnover from relatively commoditized clear glass, which is likely to change from FY2020 onwards.

Equity infusion from Premji Investments strengthens balance sheet - Premji Invest acquired a 19% stake in the company for a consideration of Rs. 400 crore in August 2018. The equity infusion has been used for capital expenditure plans related to refurbishment of Line-1, repayment of some of its existing debt and for funding its working capital.

Favourable growth prospects supported by increasing acceptance of float glass as an alternate to other building materials - ICRA expects the company's sales to grow at a healthy pace in the near-term supported by steady demand for float glass in the country, supported by increased acceptance of glass as a building material. Moreover, the government has been taking measures such as anti-dumping duty (ranging between US Dollar 23.54 - 218 per metric tonne) and non-tariff related curbs to limit the import of float glass into the country, which will benefit local manufacturers including Gold Plus.

Credit challenges

Financial leverage likely to remain high over the medium-term, especially in view of sizeable capital expenditure plans - The company has total debt to OPBDIT ratio (8.2 times as on September 30, 2018) related to the capital expenditure it incurred for its second line. ICRA expects the total debt to OPBDIT ratio to remain high over the medium-term because it is in the process of undertaking sizeable capital expenditure for refurbishment of its first line. The coverage indicators weakened in the current fiscal because of sharp decline in EBITDA margins due to rise in fuel prices.

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 and raw material prices. Additionally, silica sand, soda ash and dolomite account for 70% of the total raw material costs and the company's profitability is sensitive to availability from proximity and the fluctuations in prices of these raw materials.

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 and the economically viable capacity addition is in the range of 550-600 tonne per day. This leads to lumpy capacity addition in the sector which has an adverse impact on float glass prices. This was visible in the period FY2018 to H1 FY2019 which witnessed a 43% growth in domestic capacity, leading to a significant decline in glass prices.

Significant debt repayment and capital expenditure plans to put pressure on the liquidity profile - Gold Plus will be incurring significant capital expenditure in FY2020 for refurbishment of its first line which will put pressure on the company's liquidity profile, which is tight at present because of decline in profitability indicators in the current fiscal. Moreover, the company will have sizeable debt repayments over the next few years which will impact the company's liquidity position.

Competition from imports - Imports constitute 25-30% of India's total demand for float glass. The domestic manufacturers face competition from imports because imports have lower costs. However, the government has taken several initiatives to support the local manufacturers such as anti-dumping duty, which provides a level playing field for domestic glass manufacturers.

Liquidity Position:

The company's liquidity profile is tight because of weak earnings in the current fiscal. However, it has cash balances from the equity infusion made by Premji Invest which is earmarked for capex in FY2020. Additionally, the company is in the process of receiving a sanction for a new term loan from its existing lender(s) which will support its liquidity profile. Moreover, the company also has some unutilized working capital limits and the average utilization as % of drawing power was around 66% in 9m FY2019. ICRA expects the liquidity profile to remain tight in the near term due to high debt repayments FY2020 onwards.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on standalone financial statements of the issuer.

About the company:

Incorporated in 1985, Gold Plus Glass Industry Limited (Gold Plus) is the third largest float glass manufacturing company in India with annual capacity of 1,070 Tonne Per Day (TPD). The company set-up its first glass manufacturing line in January 2009 with annual capacity of 470 TPD and recently commenced operations at its second greenfield facility with a capacity of 600 TPD. Both the units are located in Roorkee (Uttarakhand). The company primarily manufacturers clear float glass for architectural applications and with recent capacity addition, it has expanded its offerings to include higher value-added glass viz. Tinted glass. With glass being freight intensive product, the company generates majority of its revenues from North India (62%) followed by East (21%) and rest (11%) from South & Central.

Gold Plus competes with Saint Gobain (market leader), Gujarat Guardian and Asahi India as well as imports. However, unlike its peers, the company doesn't have a foreign technology partner and has set-up both its manufacturing lines based on equipment suppliers from China and Europe.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	**480.0**	**459.0**
PAT (Rs. crore)	-7.5	10.5
OPBDIT/OI (%)	29.0%	19.8%
RoCE (%)	5.5%	9.5%
Total Debt/TNW (times)	3.6	4.4
Total Debt/OPBDIT (times)	3.4	6.9
Interest coverage (times)	3.8	2.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					Feb 2019	-	-	-
1	Term Loans	Long Term	533.56	533.56	**[ICRA]BBB- %**			
2	Cash Credit	Long Term	106.04	NA	**[ICRA]BBB-%**	-	-	-
3	Short-term non-fund based limits	Short Term	49.79	NA	**[ICRA]A3%**	-	-	-

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 1	Sep 2013	NA	Jun 2021	76.42	[ICRA]BBB-%
NA	Term Loan 2	Sep 2013	NA	Jun 2021	2.82	[ICRA]BBB-%
NA	Term Loan 3	Mar 2017	NA	Sep 2024	329.32	[ICRA]BBB-%
NA	Proposed Term Loan	NA	NA	NA	125.00	[ICRA]BBB-%
NA	Cash Credit	NA	NA	-	106.04	[ICRA]BBB-%
NA	Short-term non-fund based limits	NA	NA	-	49.79	[ICRA]A3%

Source: Company

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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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