August 19, 2020

Piramal Glass Private Limited: Ratings reaffirmed; outlook revised to Positive from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	350.0	350.0	[ICRA]BBB reaffirmed; outlook revised to Positive from Negative
Short-term, Non-fund Based Limits	150.0	150.0	[ICRA]A3+; reaffirmed
Short-term Loans	500.0	500.0	[ICRA]A3+; reaffirmed
Long-term / Short-term, Fund-based Limits^	315.0	315.0	[ICRA]BBB / [ICRA]A3+ reaffirmed; outlook revised to Positive from Negative
Total	**1,315.0**	**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

Rationale

The revision in the rating outlook to Positive takes into account the improvement in the financial profile of Piramal Glass Private Limited (PGPL) supported by the improvement in the operating profit margins (OPM) in FY2020 and Q1 FY2021 and the sale of the unrelated investments of ~Rs 300.4 crore in December 2019, which were made in the Archean Group[1] in FY2019 and Q1 FY2020. The proceeds from the same were used for part repayment of short-term loans in FY2020, leading to a reduction in the overall debt level as on March 31, 2020. Furthermore, the ratings continue to favourably factor in the established presence of the company in the glass bottle manufacturing business, its global market leadership position in the nail polish segment and its healthy market share in the global pharmaceutical glass segment. ICRA also notes PGPL's increasing presence in the relatively high margin, premium perfume segment, which will help in improving the gross margins going forward. The ratings also factor in the financial flexibility and the support of an experienced management, which the company enjoys, being a part of the Ajay Piramal Group.

The ratings are, however constrained by the continued reliance on short-term debt and the resultant asset-liability mismatch (ALM), exposing PGPL to high refinancing requirements. ICRA, however, takes comfort from the management's demonstrated track record of refinancing its loans in a timely manner. The company's ability to continue to timely refinance its loans remains a key monitorable. Furthermore, ICRA also draws comfort from the

[1] *Includes Archean Chemical Industries Private Limited, Archean Salt Holdings Private Limited, Bharath Salt Refineries Limited and Jakhau Salt Company Private Limited*

management's indication of increasing the proportion of long-term debt in its overall borrowings and thus reduce the ALM. The profitability of the company remains susceptible to fluctuations in raw material and energy costs as well as 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.

PGPL's operating income (OI) witnessed a YoY growth of 7% in FY2020 to Rs. 2,608.6 crore, aided by a 12% YoY growth in the cosmetics and perfumery (C&P) segment and 6% YoY growth in the specialty food and beverage (SFAB) segment. Coupled with a reduction in power, fuel and freight costs in FY2020 (on account of the reduced crude oil prices), this led to an improvement in PGPL's OPM to 23.9% in FY2020, as against 17.5% in FY2019. The profit margins during FY2020 also remained adequately supported by the stability in operations of PGPL's US subsidiary, which were adversely impacted in FY2019 because of the then ongoing issues with respect to the automation project being implemented by the company. These were successfully resolved in FY2020 and led to savings on employee costs for the US subsidiary. Aided by improved profits and sale of unrelated investments in FY2020, this led to a reduction in the net debt to Rs. 1,228.3-crore as on March 31, 2020 from Rs. 1,413.7 crore as on March 31, 2019. This further led to an improvement in the debt coverage metrics of the company, as evinced by the Net Debt/OPBDITA of 2.0 times as on March 31, 2020 (vis-a-vis 3.3 times as on March 31, 2019), an interest cover of 4.8 times (vis-a-vis 4.2 times as on March 31, 2019) and net cash accruals as of percentage of total debt (NCA/TD) to 29% (vis-a-vis 16% times as on March 31, 2019).

Being part of the essential services, the pharmaceutical segment of PGPL remained operational during the period of the nationwide lockdown imposed in India due to the outbreak of the pandemic. Furthermore, while PGPL's subsidiary in the US remained fully operational in Q1 FY2021, the one in Sri Lanka has been operating at normal levels since mid-May 2020. There has, however, been a slowdown in demand for PGPL's C&P segment due to the slowdown in the discretionary spends on account of the pandemic. Nonetheless, PGPL is expected to largely offset the impact of the same on revenues through increased sales in the pharmaceutical and the SFAB (food container) segments. In Q1 FY2021, with continued softening of the raw material prices, reduced power and fuel expense and rationalisation of other cost heads, including employee expenses, the company's OPM improved to 28.3% vis-à-vis 20.0% in Q1 FY2020. The company has also laid off some of its employee force in the US in July 2020, amid the slowdown in the C&P segment, which should lead to further savings in employee costs in FY2021. The prices of soda ash (chief raw material for PGPL) have also eased in FY2021. Coupled with reduced power and fuel costs (on account of soft crude oil prices) and other cost-saving initiatives undertaken by the company, this is expected to adequately support PGPL's OPM in FY2021.

The glass packaging industry is capital intensive in nature, requiring regular capital expenditure (capex) for relining / cold repair of the furnaces, capacity augmentation as well as for routine maintenance. While the company has deferred all of its non-critical capex in FY2021, in a bid to conserve cash, it is expected to resume the same from FY2022 onwards upon normalisation of the current situation.

The positive outlook reflects ICRA's expectations that the company will be able to sustain the improvement in its OPM, thereby resulting in a comfortable financial profile amid limited capex plans in the near term.

Key rating drivers and their description

Credit strengths

Established player in the global 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 drove around 42% of its revenues in FY2020, followed by the SF&B (~36%) and pharmaceutical (~22%) segments in FY2020.

Global leader in the nail polish segment – PGPL enjoys global 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. There has, however, been a slowdown in demand for PGPL's C&P segment in Q1 FY2021, due to the slowdown in the discretionary spends on account of the pandemic.

Being a part of 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, glass packaging and real estate. The Group is present across 30 countries in over 100 markets. Being a part of the Group, the company enjoys strong financial flexibility and the support of an experienced management team.

Improvement in financial profile – PGPL's OI witnessed a YoY growth of 7% in FY2020 to Rs. 2,608.6 crore aided by a 12% YoY growth in the C&P segment and 6% YoY growth in the SFAB segment. Coupled with a reduction in power and fuel and freight costs in FY2020, as well as stability in operations of PGPL's US subsidiary, this led to an improvement in PGPL's OPM to 23.9% in FY2020 vis-a-vis 17.5% in FY2019. PGPL also sold off its Rs 300.4 crore investment in the Archean Group in FY2020. These led to a reduction in its net debt to Rs. 1,228.3 crore as on March 31, 2020 from Rs. 1,413.7 crore as on March 31, 2019. Coupled with improved profits, this led to an improvement in its debt coverage metrics, as evinced by Net Debt/OPBDITA of 2.0 times as on March 31, 2020 (vis-a-vis 3.3 times as on March 31, 2019), interest cover of 4.8 times (vis-a-vis 4.2 times as on March 31, 2019) and NCA/TD to 29% (vis-a-vis 16% times as on March 31, 2019). In Q1 FY2021, with softening of the raw material prices, reduced power and fuel expense and rationalisation of other cost heads, including employee expenses, the company's OPM improved to 28.3% vis-à-vis 20.0% in Q1 FY2020. ICRA expects the company to be able to sustain the improvement in its OPM, thereby resulting in a comfortable financial profile amid limited capex plans in the near term.

Credit challenges

Continued ALM exposing the company to high refinancing requirement – Notwithstanding the reduction in the short-term loans, PGPL's reliance on the same remains high, leading to continued ALM. This in turn exposes the company to high refinancing requirements. ICRA, however, takes comfort from the management's demonstrated track record of refinancing its loans in a timely manner. The company's ability to continue to timely refinance its loans remains a key monitorable. Furthermore, ICRA also draws comfort from the management's indication to increase the proportion of long-term debt in its overall borrowings and thus reduce the ALM.

Expected decline in C&P segment growth in FY2021 due to slowdown in demand amid the pandemic – The demand for C&P, being discretionary in nature, has been impacted in the current pandemic. Nonetheless, PGPL is expected to largely offset the impact of the same on revenues through increased sales in the pharmaceutical and the SFAB (food container) segments.

Profitability vulnerable to movement in raw material, energy and freight costs as well as foreign exchange fluctuations – PGPL's OPM has moved in line with the fluctuations in raw material (chief being 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 witnessed a correction in energy prices, leading to improvement in the OPM, rising natural gas prices impacted its OPM in FY2018 and FY2019. In FY2020, the company's OPM benefitted from the reduction in energy costs, on account of the reduced crude oil prices. The same is expected to remain low in FY2021 as well, thereby supporting its OPM.

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 partly mitigated by its well-defined hedging policy wherein a significant portion of its net foreign exchange exposure is hedged through forward contracts.

Capital intensive nature of the industry – The glass packaging industry is capital intensive in nature, requiring regular capex for relining / cold repair of the furnaces, capacity augmentation as well as for routine maintenance. The company incurred a total capex of ~Rs. 393 crore in FY2020 towards the same. While it has deferred all of its non-critical capex in FY2021, in a bid to conserve cash, it is expected to resume the same from FY2022 onwards upon normalisation of the current situation.

Liquidity position: Adequate

The liquidity position of the company is **adequate** marked by unutilised bank lines of ~Rs. 320.5 crore (including undrawn sanctioned short-term loans) as on July 31, 2020. The cash flows of the company are also expected to remain adequately supported in FY2021 by stable OPM led by lower power and fuel and employee costs. As against this, the company has total repayments of Rs 545.2 crore (including repayment of short-term loans of Rs. 185 crore at standalone level and Rs. 232.8 crore by its subsidiaries at US and Sri Lanka) in FY2021. ICRA understands that the short-term loans availed under its US and Sri Lankan subsidiaries do not have a defined repayment schedule and are rolled-over upon maturity; the company has successfully rolled over its short-term loan of Rs. 110.4 crore at its US subsidiary during August 2020. The company also has limited capex plans of Rs. 150 crore in FY2021.The liquidity profile of the company is also supported by the strong re-financing ability and financial flexibility enjoyed by it by virtue of being a part of the Ajay Piramal Group.

Rating sensitivities

Positive triggers – The ratings may be upgraded if there is a sustained improvement in the company's revenues and profit margins, thereby resulting in an improvement in the coverage metrics. Correction in the ALM would also be a positive factor.

Negative triggers – The ratings may be downgraded if there is a substantial weakening in the company's profit margins or if there is any substantial increase in the debt leading to TD/OPBDITA above 3.0 times on a sustained basis. Further weakening of ALM will also be a negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent / Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of PGPL. As on March 31, 2020, the company had nine subsidiaries, which are enlisted in Annexure-2.

About the company

PGPL is a leading player in the global glass packaging industry, which caters to the Pharmaceutical, C&P and SFAB industries. PGPL has nine subsidiaries, of which two—Piramal Glass Ceylon PLC and Piramal Glass USA Inc.—are the key operating subsidiaries and own manufacturing locations in Sri Lanka and the US, respectively. In FY2020, PGPL acquired 100% stakes in two companies in India, namely, Ansa Decoglass Private Limited (ADPL) and Kosamba Glass Deco Private Limited (KGDPL) for a total consideration of ~Rs. 90.27 crore (including debt taken over). While ADPL is a decoration unit operating entirely to meet PGPL's decoration requirements; under KGDPL, there is no manufacturing activity. The other subsidiaries were primarily set up to either develop PGPL's exports or as marketing companies in Europe. PGPL has five manufacturing locations—two in India and US and one in Sri Lanka—with a total production capacity of 1,475 TPD as on June 30, 2020.

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 relisted 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 that of a Private Limited Company with effect from December 7, 2017.

Key financial indicators (audited, consolidated)

	FY2019	FY2020
Operating Income (Rs. crore)	2,426.9	2,608.6
PAT (Rs. crore)	96.0	291.5
OPBDIT/OI (%)	17.5%	23.9%
PAT/OI (%)	4.0%	11.2%
Total Outside Liabilities Debt/ Tangible Net Worth(times)	2.9	1.8
Total Debt/ OPBDIT (times)	4.4	2.1
Interest Coverage (times)	4.2	4.8

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2021) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating 19-Aug-20	Rating History for the Past 3 Years Date & Rating in FY2020 24-Jul-19	Date & Rating in FY2019 02-Nov-18	24-Aug-18	Date & Rating in FY2018 04-Aug-17
1	Term Loans	Long-term	350	236.5	[ICRA]BBB (Positive)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)
2	Fund-based Facilities	Long-term / Short-term	315	-	[ICRA]BBB (Positive)/ [ICRA]A3+	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB+ (Positive)/ [ICRA}A2	[ICRA]BBB+ (Positive) /[ICRA}A2	[ICRA]BBB+ (Positive)/ [ICRA}A2
3	Non-fund Based Facilities	Short-term	150	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	Term Loans	Short-term	500	218.2**	[ICRA]A3+	[ICRA]A3+	[ICRA]A2	[ICRA]A2	[ICRA]A2

**As on March 31, 2020*

***As on March 31, 2020, the utilisation was in the form of working capital demand loans, short term loans and packing credit*

^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	Oct-18	10.50%	Oct-23	100.0	[ICRA]BBB (Positive)
-	Long-term Loan-2	Sep-17	8.45%	Mar-22	100.0	[ICRA]BBB (Positive)
-	Long-term Loan-3	Mar-19	9.60%	Mar-24	100.0	[ICRA]BBB (Positive)
-	Long-term Unallocated	-	-	-	50.0	[ICRA]BBB (Positive)
-	Short-term, Non-fund Based Limits	-	-	-	150.0	[ICRA]A3+
-	Short-term Loans	-	-	-	500.0	[ICRA]A3+
	Long-term / Short-term, Fund-based Limits	-	-	-	315.0^	[ICRA]BBB (Positive)/ [ICRA]A3+

Source: Piramal Glass Private Limited

^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
**at the time of sanction of the loan*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation approach
Subsidiaries		
Piramal Glass Ceylon PLC	56.45%	Full Consolidation
Piramal Glass International Inc.	100%	Full Consolidation
Piramal Glass USA, Inc.	100%	Full Consolidation
Piramal Glass Flatriver Inc. (wholly owned subsidiary of PG USA)	100%	Full Consolidation
Piramal Glass Williamstown LLC (wholly owned subsidiary of PG USA)	100%	Full Consolidation
Piramal Glass (UK) Ltd.	100%	Full Consolidation
Piramal Glass Europe SARL	100%	Full Consolidation
Ansa Decoglass Private Limited	100%	Full Consolidation
Kosamba Glass Deco Private Limited	100%	Full Consolidation

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Sakshi Suneja
+91 22 6114 3438
sakshi.suneja@icraindia.com

Amit Naik
+91 22 6114 3435
amit.naik@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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

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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ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
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