

September 18, 2020

## Gold Plus Glass Industry Limited: Ratings reaffirmed at [ICRA]BB+(Negative)/A4+

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	533.56	465.25	[ICRA]BB+(Negative); Reaffirmed
Cash Credit	106.04	112.39	[ICRA]BB+(Negative); Reaffirmed
Short-term Non-fund Based Limits	49.79	49.79	[ICRA]A4+; Reaffirmed
<b>Total</b>	<b>689.39</b>	<b>627.43</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation for Gold Plus Glass Industry Limited (Gold Plus) takes into account the company's position as a leading player in the domestic float glass industry, and expectations of improved business prospects going forward. However, the company's upcoming sizeable debt servicing obligations and weak liquidity profile continue to constrain the ratings.

Gold Plus has a healthy business profile supported by a sizeable market presence in the clear float glass segment, especially in North and East India. Post commencement of operations at its second manufacturing line from February 2018 onwards, it became the second largest glass manufacturing company in India (by installed capacity), behind Saint Gobain only.

The company's operations were impacted in FY2020 on account of the refurbishment exercise undertaken for its Line I, which resulted in unavailability of the line for production for six months. Additionally, its performance in FY2020 was impacted by pressure on realisations owing to lower-priced imports from Malaysia, and high proportion of clear glass production in comparison to value-added glass production, due to unavailability of one of the lines for production for a large part of the year. However, the refurbishment exercise for Line I was successfully completed by October 2019, and at present, Gold Plus has two relatively new lines available for production. Accordingly, despite the disruptions in the first couple of months of the fiscal caused by the nationwide lockdown, it is expected to post improvement in sales in the current fiscal supported by enhanced capacities. Additionally, with the company's ability to dedicate one line towards value-added glass production now, it is likely to garner improved realisations and margins, unlike in the previous years, when production was skewed towards the relatively lower-margin clear float glass.

The company would benefit from the recent imposition of anti-dumping duty (ADD) on imports of clear glass from Malaysia in August 2020. The domestic float glass industry had been reeling under considerable pricing pressure over the recent years from lower-priced imports from Malaysia, impacting overall realisations and profitability. However, the Government of India has imposed ADD of \$273/tonne on these imports. Thus, imports are expected to be significantly curtailed, providing scope for increased volumes as well as better pricing for domestic players like Gold Plus.

Raw material and fuel costs, which account for bulk of the manufacturing expenses in float glass industry, have also been favourable recently, supported by benign commodity price trends. The decline in the prices of its key raw material - soda ash, and that of key fuel - natural gas, in the current fiscal, would offer impetus to the company's profitability and earnings.

Given these favourable developments, Gold Plus has started reporting an improvement in its operational performance over the recent months, with sales volumes scaling up to 34,154 T in August 2020 and EBITDA margins increasing to 19-20% over the past few months. Accordingly, despite negligible sales reported in April and May 2020, it reported revenues of Rs. 229 crore and EBITDA margin of 11.7% in 5M FY2021, against Rs. 633.2-crore sales and 6.4% EBITDA margin reported in twelve months of FY2020 (as per provisional financials). Sustainability of this recent traction in volumes and improvement in profitability remain critical for the company to strengthen its liquidity and financial risk profile, and accordingly would be a key monitorable.

Notwithstanding the recent improvement in operating performance, the company's liquidity position remains stretched with sizeable upcoming debt obligations, while liquidity buffer from unutilised lines of credit or cash balances remains low. With the pandemic-induced disruption on operations, the company had availed the six-month moratorium from its lenders under the RBI's Covid-19 Regulatory Package, which offered some respite to its cash flows. However, the same expired on August 31, 2020 and Gold Plus has sizeable debt servicing obligations of approximately Rs. 122 crore (including interest expenses) in the current fiscal, commencing from September 2020. Additionally, commitments towards debt servicing would increase further in FY2022 to Rs. 190-200 crore.

Considering its modest liquidity position at present, the company remains dependent on tying up additional sources of funds, including incremental bank lines or promoter funds, to meet these obligations in a timely manner, in case of any temporary deficit for meeting the same from cash flows from operations. In this respect, ICRA takes comfort from the support extended by its lenders in the recent past<sup>1</sup> and the promoters' track record of fund infusion (Rs. 15 crore unsecured loan extended in FY2020). Nevertheless, ICRA would continue to closely monitor the situation and developments on this front.

The ratings factor in the company's weak financial risk profile characterised by a leveraged balance sheet and weak credit metrics, on account of sizeable capital expenditure undertaken in the recent past for setting up Line II and refurbishing Line I. Its Total Debt/OPBITDA had weakened considerably to 14.7 times in FY2020 (PY: 8.9 times) on account of an increase in debt levels, weakness in earnings and cash flow generation. The gearing had also increased to 1.5 times as on March 31, 2020 (PY: 1.1 times), despite the sizeable equity infusion of Rs. 400 crore received from the private equity (PE) investor, Premji Invest, in FY2019. While its credit metrics are likely to improve to some extent in the current fiscal on the back of the expected improvement in profitability, material improvement is only anticipated over the medium term, as scheduled debt repayments aid reduction in overall debt levels.

The Negative outlook on the [ICRA]BB+ rating reflects ICRA's opinion that Gold Plus' liquidity profile is expected to remain weak, on account of sizeable debt servicing obligations over the near term. While the company has reported an improvement in demand and profitability over the past couple of months, sustaining the same remains imperative for a revision in outlook to Stable and favourable rating movement.

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<sup>1</sup>Gold Plus' lenders have recently extended a Rs. 20-crore corporate loan, and also approved an additional 10% working capital lines as an emergency Covid line, to support the company. Additionally, the margin requirement as well as drawing power calculation have been relaxed, which has provided the company with additional buffer as well.

## Key rating drivers and their description

### Credit strengths

**Among top three players in domestic float glass industry** – Gold Plus is the second largest manufacturer of float glass in India, with an installed capacity of 1,250 TPD, which has increased from 470 TPD after the capacity expansion and line refurbishment undertaken in recent years. The company's business profile is supported by experienced promoters and a sizeable market share in the clear glass segment, especially in North and 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 third largest player with an installed capacity of 1,200 TPD. Other key players include Gujarat Guardian [rated [ICRA]AA(Stable)] and HNG Float.

**Capacity addition undertaken over recent years to manufacture value-added glass and improve margins** – The company commenced operations on its new line in February 2018 and refurbished Line I in October 2019, strengthening its presence in the tinted glass segment. This would result in an improvement in its business and financial profile as tinted glass has higher realisations and better profit margins vis-à-vis clear glass. At present, it generates a major share of its turnover from the relatively commoditised clear glass. However, with its plans to dedicate one line towards value-added glass production, the product mix would potentially improve going forward.

**Equity infusion from Premji Investments improved balance sheet over recent fiscals** – Premji Investments acquired a 19% stake in the company for a consideration of Rs. 400 crore in August 2018. The equity infusion was used for capital expenditure plans related to refurbishment of Line I, repayment of some of its existing debt and for funding its working capital.

**Imposition of ADD on imports to support business prospects** – The recent imposition of ADD on imports from Malaysia should strengthen the business prospects of the domestic players, with scope for import substitution. In addition to the increased volumes expectations, the ADD would also alleviate pricing pressures in the industry, supporting improvement in realisations and margins.

**Favourable growth prospects supported by increasing acceptance of float glass** – Despite the near-term challenges brought about by the pandemic, ICRA expects the company's medium-to-long term growth prospects to remain supported by structural positive changes in demand for float glass in the country, on the back of increased acceptance of glass as a building material.

### Credit challenges

**Stretched liquidity profile due to sizeable debt repayments and weak cash flow generation** – Gold Plus' liquidity position is stretched given its sizeable debt obligations in the current fiscal, which would increase even further from next fiscal. Although the operations are reviving at a healthy pace, the liquidity buffer available for meeting debt servicing obligations remains very low, minimising the cushion available to absorb any unforeseen disruptions.

**Financial leverage to remain high due to sizeable capital expenditure incurred in recent past** – The company has a total debt to OPBDIT ratio (14.7 times in FY2020) owing to sizeable capital expenditure incurred in the recent past, and weakness in earnings and cash flow generation. ICRA expects the dependence on external borrowings to continue over the medium term, considering the weak cash flow generation. Accordingly, any material

improvement in credit metrics and coverage indicators is only expected over the longer term, as scheduled debt repayments help in reducing the overall debt levels.

**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 prices. Additionally, silica sand, soda ash and dolomite account for 70% of the total raw material costs. Its profitability is sensitive to the fluctuations in the prices and availability of these raw materials from proximate sources.

**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 in nature with economically viable capacity addition standing in the range of 550-600 tonnes per day. This leads to lumpy capacity addition in the sector, which has an adverse impact on float glass prices. This was visible during FY2018–H1 FY2019, which witnessed a 43% growth in domestic capacity, leading to a significant decline in glass prices.

**Competition from imports** – Imports constitute approximately 20% of India's total demand for float glass. The domestic manufacturers face competition from imports because they have lower costs. However, the Government has, in the past, taken several initiatives to support local manufacturers, such as anti-dumping duty, which is likely to provide a level playing field for domestic glass manufacturers.

### Liquidity position: Stretched

Gold Plus' liquidity position is **stretched** given its sizeable debt repayments relative to cash flow generation. Although the operations are reviving at a healthy pace, the liquidity buffer available for meeting debt servicing obligations remains very low, minimising the cushion available to absorb any unforeseen disruptions. However, ICRA expects equity infusion from the promoters in case of any shortfall in meeting the debt servicing requirements. Nevertheless, given the subdued cash flow generation and sizeable debt servicing obligations, the company is likely to remain dependent on external sources of funding to some extent for meeting its cash outflow requirements.

### Rating sensitivities

**Positive triggers** – While the company has reported an improvement in demand and profitability over the past couple of months, a demonstrated track record in sustaining the same remains imperative for a favourable rating movement. Accordingly, ICRA would monitor its ability to maintain the recent traction in volumes, while sustaining the improved profitability on the back of increased pricing power and an improved cost structure.

**Negative triggers** – Inability of the company to improve its liquidity position over the near term may result in a negative rating action. Additionally, significant deterioration in earnings on account of muted scale-up in sales or further weakening of credit metrics due to increased dependence on external borrowings, leading to sustained deterioration in profitability and credit metrics with Total Debt/OPBITDA above 5 times on a sustained basis, may lead to a downward rating movement.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on Gold Plus' standalone financial statements

## About the company

Incorporated in 1985, Gold Plus is the second largest float glass manufacturing company in India with an annual capacity of 1,250 tonnes per day (TPD). The company set up its first glass manufacturing line in January 2009 with an annual capacity of 470 TPD, which got further augmented in 2018 with its second greenfield facility of 700 TPD capacity. The Line I was subsequently refurbished in October 2019. Both the units are located in Roorkee (Uttarakhand). It primarily manufactures clear float glass for architectural applications. With the recent capacity addition, it has expanded its offerings to include higher value-added glass, such as tinted glass. With glass being a freight-intensive product, the company generates most of its revenues from North India (62%), followed by the East (21%) and the rest (11%) from South and Central India.

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

## Key financial indicators

	FY2019 (audited)	FY2020 (provisional)
Operating Income (Rs. crore)	806.7	633.2
PAT (Rs. crore)	-38.5	-92.8
OPBDIT/OI (%)	7.7%	6.4%
PAT/OI (%)	-4.8%	-14.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	2.0
Total Debt/OPBDIT (times)	8.9	14.7
Interest Coverage (times)	1.0	0.6

## Status of non-cooperation with previous CRA:

- Ratings of [IND]BB+/A4+ moved to Issuer Not Cooperating category by India Ratings in September 2018 due to lack of adequate information.
- CARE ratings revised from [CARE]BB+(Positive)/A4+ to [CARE]BB+(Stable)/A4+ and moved to Issuer Not Cooperating category in April 2019 due to lack of adequate information; subsequently revised to [CARE]B+(Negative)/A4 Issuer Not Cooperating in June 2020.

## Any other information: None

### Rating history for past three years

	Instrument	Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding*	Current Rating	Earlier Rating	FY2020	FY2019	FY2018
					18-Sep-2020	22-May-2020	11-Apr-2019	14-Feb-2019	-
1	Term Loan	Long Term	465.25	465.25	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB- %	-
2	Cash Credit	Long Term	112.39	NA	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB- %	-
3	Short-term Non-fund Based Limits	Short Term	49.79	NA	[ICRA]A4+	[ICRA]A4+	[ICRA]A3+	[ICRA]A3 %	-

Amount in Rs. crore

\*As on August 31, 2020

### 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](http://www.icra.in)

### Annexure-1: Instrument details

ISIN	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	Dec 2021	43.33	[ICRA]BB+(Negative)
NA	Term Loan 2	Mar 2017	NA	Mar 2025	275.24	[ICRA]BB+(Negative)
NA	Term Loan 3	Mar 2019	NA	Sep 2026	125.00	[ICRA]BB+(Negative)
NA	Corporate Loan	Apr 2020	NA	FY2024	20.00	[ICRA]BB+(Negative)
NA	Term Loan 4	Sep 2013	NA	Dec 2021	1.68	[ICRA]BB+(Negative)
NA	Cash Credit	NA	NA	-	112.39	[ICRA]BB+(Negative)
NA	Short-term non-fund based limits	NA	NA	-	49.79	[ICRA]A4+

Source: Gold Plus Glass Industry Limited

### Annexure-2: List of entities considered for consolidated analysis – Not applicable

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For more information, visit [www.icra.in](http://www.icra.in)

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