

November 03, 2021

Hindustan Tin Works Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based/Term loan	37.04	37.04	[ICRA]BBB+(Stable); Reaffirmed
Fund-based/Working capital limits	96.00	96.77	[ICRA]BBB+(Stable); Reaffirmed
Non-fund Based-LC/BG	55.00	55.00	[ICRA]A2; Reaffirmed
Long-term/Unallocated	46.96	46.19	[ICRA]BBB+(Stable); Reaffirmed
Short-term/Unallocated	5.0	5.0	[ICRA]A2; Reaffirmed
Total	240.00	240.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation takes into account Hindustan Tin Works Limited's (HTWL) position among the leading players in the tin can manufacturing industry, supported by its established operational track record, wide product mix, and its reputed clientele. These factors, coupled with the company's presence in exports, lend diversity to the revenue stream. Higher export contribution and increasing prices of tin plates resulted in improved profitability over the last few quarters. However, the sustainability of these margins in the long run is yet to be seen.

The ratings are, however, constrained by the high working capital intensity of the business. While the company registered higher revenue growth in FY2021, higher funding requirements resulted in higher reliance on external debt as on March 31, 2021, though the debt coverage metrics remained moderate. The ratings are constrained by HTWL's limited pricing flexibility owing to intense competition, and vulnerability to volatile raw material prices and foreign exchange fluctuations. Moreover, the company continues to face competition from substitutes such as flexible forms of packaging, which has impacted the demand in the recent years. Also, the revenue base of the company has largely remained stagnant over the past 3-4 years.

The Stable outlook reflects ICRA's opinion that the company will continue to benefit from the buoyant demand outlook and established customer relationships.

Key rating drivers and their description

Credit strengths

Positioned among major players in industry – HTWL benefits from its established operational track record, experienced promoters, wide product mix and diversification of its revenue stream, given its presence in the export market. These factors have enabled it to emerge as one of the leading players in the industry.

Growth in revenues and profitability – HTWL's revenues increased in FY2021 (Rs. 328 crore against Rs. 301 crore in FY2020, though lower than FY2019 levels) due to healthy demand in the domestic and export markets. Further, rising prices supported the growth, in addition to the stable demand. In Q1 FY2022, the company achieved healthy revenues of Rs. 105.1 crore, ~19% higher than the previous corresponding quarter, primarily led by increase in tin prices.

Wide customer base comprising reputed clientele – The company has, over the years, developed a wide customer base, which includes reputed corporates such as Nestle India Limited, Asian Paints Limited and Haldiram Snacks Private Limited, etc.

HTWL's long-standing relations with these customers resulted in repeat business, driving the revenue growth. The top five customers continue to account for ~30% of its revenues in FY2021. The company's exports also grew in FY2021 and contributed ~19% to the overall revenue as compared to 14% in FY2020.

Credit challenges

Growing working capital intensity – The company has high inventory and debtor levels, along with considerable outstanding debtors for greater than six months, resulting in a high working capital intensity (NWC/OI of ~47% in FY2021 as compared to ~39% in FY2020). Increased funding requirements of the business led to higher utilisation of short-term debt in FY2021 as compared to the earlier years, which also impacted its return on capital employed (RoCE). However, the RoCE improved from 7.2% in FY2020 to 12.0% in FY2021 on account of higher capital being deployed towards funding of growing working capital requirements, despite an expansion in its operating profits. ICRA notes that the increase in working capital intensity in FY2021 is largely attributed to high inventory cost on the back of increased tin plate prices. The company has been able to successfully keep adequate cushion in its overall cash credit limits.

Intense competition – The competitive and fragmented nature of the industry and substitution risk from alternate packaging materials, such as plastic and tetra packs, limit the pricing flexibility of industry participants, including HTWL.

Exposure to raw material price volatility and foreign exchange risk – HTWL's profit margins remain exposed to volatility in raw material prices and fluctuate with the proportion of tin plate trading revenues in the total revenue. With exports constituting 15-20% of the turnover, the company is exposed to adverse movement in foreign exchange rates. However, it has sizeable imports that create a natural hedge. It also has a selective hedging mechanism for the balance exposure. Also, company has managed to pass some of the increase in the raw material prices to its clients, thereby protecting the profitability.

Liquidity position: Adequate

HTWL's liquidity position is **adequate** due to availability of free cash of ~Rs. 3.8 crore (as on Mar 31, 2021), along with average cushion in working capital to the tune of ~Rs. 30 crore. It has Rs 7.13 crore of scheduled repayments in FY2022.

Rating sensitivities

Positive factors – HTWL's ratings could be upgraded if the company demonstrates consistent growth in its profits and cash accruals, along with efficient management of working capital, resulting in an improvement in the interest coverage to more than 4.0 times and RoCE to more than 15% on a sustained basis.

Negative factors – HTWL's ratings could be downgraded if there is a decline in its revenues and profitability, which along with elongation in the working capital cycle exerts pressure on its liquidity position. Moreover, deterioration in its coverage metrics may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1958, Hindustan Tin Works Limited (HTWL) is a public limited company involved in manufacturing tin cans and trading tinsplate. Mr. Sanjay Bhatia, Managing Director and member of the promoter family entered the business in 1977 and has more than three decades of experience in this business. HTWL is among the largest players in the tin can industry in India.

and has expertise in round, irregular tin cans, especially open top sanitary (OTS) cans or food cans. The company's manufacturing facility is in Murthal, Haryana.

Key financial indicators (Audited/Provisional)

Consolidated	FY2019 (A)	FY2020 (A)	FY2021 (P)
Operating Income (Rs. crore)	339.6	300.8	328.3
PAT (Rs. crore)	7.9	7.6	14.6
OPBDIT/OI (%)	8.5%	7.8%	10.5%
RoCE (%)	9.4%	7.2%	12.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.7	0.8
Total Debt/OPBDIT (times)	3.5	2.9	2.6
Interest Coverage (times)	2.7	2.4	3.9
DSCR (times)	1.3	1.0	1.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S.No.	Instrument	Current Rating (FY2022)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2021		FY2020	FY2019
					03-Nov-21 14-Oct-21	08-Jan-21	17-Apr-20	10-Sep-18	10-Sep-18
1	Term loan	Long Term	37.04	25.06	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Working capital limits	Long Term	96.77	96.77	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
3	LC/BG	Short Term	55.00	55.00	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A2+
4	Unallocated	Long Term	46.19	46.19	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
5	Unallocated	Short Term	5.0	5.0	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A2+

Amount in Rs. crore

*Term loan amount outstanding entirely paid

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based/Term loan	Simple
Fund-based/Working capital limits	Simple
Non-fund Based-LC/BG	Very Simple
Long-term/Unallocated	NA
Short-term/Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's

financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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	Fund-based/Term loan	2015	NA	2024	37.04	[ICRA]BBB+ (Stable)
NA	Fund-based/Working capital limits	-	NA	-	96.77	[ICRA]BBB+ (Stable)
NA	Non-fund Based-LC/BG	-	NA	-	55.00	[ICRA]A2
NA	Long-term/Unallocated	-	NA	-	46.19	[ICRA]BBB+(Stable)
NA	Short-term/Unallocated	-	NA	-	5.0	[ICRA]A2

Source: Company

**Term loan amount outstanding entirely paid*

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

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