

February 28, 2023

Hindustan Tin Works Limited: Ratings reaffirmed; outlook revised to Positive from Stable; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based/Term loan	37.04	89.74	[ICRA]BBB+(Positive); reaffirmed /assigned; outlook revised from Stable to Positive
Fund-based/Working capital limits	96.77	113.77	[ICRA]BBB+(Positive); reaffirmed/assigned; outlook revised from Stable to Positive
Non-fund Based-LC/BG	55.00	50.20	[ICRA]A2; reaffirmed
Long-term/Unallocated	46.19	6.49	[ICRA]BBB+(Positive); reaffirmed; outlook revised from Stable to Positive
Short-term/Unallocated	5.00	9.80	[ICRA]A2; reaffirmed/assigned
Total	240.0	270.0	

*Instrument details are provided in Annexure-I

Rationale

The revision in outlook takes into account ICRA's expectation that Hindustan Tin Works Limited's (HTWL) revenue growth would continue on account of buoyant demand, in the near to medium term. The same is supported by the established position of HTWL among the leading players in the tin can manufacturing industry with an established operational track record, wide product mix, and reputed clientele. Moreover, plans to set up a new export-focused facility will enable it to tap the healthy export prospects, also lending diversity to its revenue stream.

The ratings are, however, constrained by the high working capital intensity of the business, driven by high debtor and inventory levels, which moderated in FY2022 but continues to remain high. ICRA also notes the sizeable aged debtors, majority of which is from the trading operations. Moreover, planned debt-funded capex is expected to lead to moderation in debt coverage and return metrics pending ramp up of returns from the same. However, the longer repayment tenor with a moratorium period provides some added comfort. The company's ability to timely implement the capex, ramp up utilisation and the associated impact on its credit metrics will be a key rating monitorable. The ratings are further constrained by HTWL's limited pricing flexibility owing to intense competition and vulnerability to volatile raw material prices and foreign exchange (forex) fluctuations. Further, the company continues to face competition from substitutes such as flexible forms of packaging, though mitigated to an extent by the advantages of using tin cans for specific edibles.

The Positive outlook reflects ICRA's opinion that the company will benefit from its expanded capacities coupled with the buoyant demand outlook and steady orders from its existing clients.

Key rating drivers and their description

Credit strengths

Established track record as a major player in the 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.

Continued growth in revenues and cash accruals led by healthy demand; new unit augurs well for export prospects –HTWL's revenues grew substantially in FY2022 (Rs. 410 crore against Rs. 328 crore in FY2021, higher than pre-Covid levels) due to

healthy demand in the domestic and export markets. Further, rising prices supported the growth, in addition to the stable demand. In 9M FY2023, the company has sustained its revenue growth on account of continued buoyant demand with revenue of Rs. 387 crore, a YoY growth of ~27%. The company continues to have a healthy order book, with majority of share being generated from the exports segment. The company's exports also grew in FY2022 and contributed ~22% to its overall revenues over 21% in FY2021. In 9M FY2023, the exports contribution to its total revenues stood at ~23%. Further, the company is currently setting up an export-focused unit in Sonapat, Haryana, near its existing unit, which will enable it to tap the additional export demand, which is typically higher margin accretive, improving its revenue diversity as well.

Stable business profile with wide customer base of reputed clientele – The company has a stable business profile while operating in an industry, which is largely insulated from economic downturns. Its revenues have grown in FY2021 and FY2022 and continues to grow in the current fiscal as well, demonstrating HTWL's ability to withstand any stress in the economy. Over the years, HTWL has developed a wide customer base, which includes reputed corporates such as Dharampal Satyapal Ltd., Nestle India Limited, Asian Paints Limited and Haldiram Snacks Private Limited, etc. HTWL's established relationships with its customers have resulted in repeat business, driving its revenue growth. Its top five customers continued to account for ~33% of its revenues in FY2022.

Credit challenges

High working capital intensity given long receivables period and high stocking requirements; greater than six months debtors remain a concern – The company operates in a working capital-intensive business and maintains high inventory and debtor levels, along with considerable outstanding debtors for greater than six months, resulting in a high working capital intensity. Although the working capital intensity improved (NWC/OI of ~39% in FY2022 over ~47% in FY2021), the receivables still remain high. The inventory levels remained high in FY2021 and FY2022 owing to significant rally witnessed in the tin prices, which has seen a correction in the current fiscal, which is expected to bring down inventory levels, going forward. The company has been able to successfully keep adequate cushion in its overall cash credit limits to fund its working capital requirement. The greater than six months receivables remain a concern and due to the same, the company is consistently making provisions, which further suppresses profitability. These receivables are mainly in the trading vertical of the company.

Moderation in coverage metrics in medium term with planned debt-funded capex – The company has availed long-term debt to fund the planned capex for both the new export's unit as well as for new product development in the existing unit. The capex will be implemented over FY2023–FY2025. The incoming debt is expected to moderate the leverage and coverage indicators to some extent, given that returns ramp up from the same will be gradual. However, the moratorium period provides some comfort as the repayments would commence from FY2025. The company's ability to timely implement the capex, ramp up utilisation and the associated impact on its credit metrics will be a key rating monitorable.

Exposure to raw material price volatility and forex risk – HTWL's profit margins remain exposed to volatility in raw material prices, though it manages to pass on large variations. Margins also fluctuate with the proportion of tin plate trading revenues in the total revenue. In addition, with exports constituting ~20% of the turnover, the company is exposed to adverse movement in forex rates.

Competition from other packaging substitutes – The competitive and fragmented nature of the industry and substitution risk from alternative packaging materials, such as plastic and tetra packs, limit the pricing flexibility of industry participants, including HTWL. However, tin has advantages for specific food packaging with less probability of contaminating the food and having a long shelf life as well.

Liquidity position: Adequate

HTWL's liquidity position is adequate due to healthy cushion in working capital limit to the tune of ~Rs. 50 crore as of December 2022 and modest free cash levels. It has Rs 10.12 crore and Rs 8.88 crore of scheduled repayments in FY2023 and FY2024, respectively, which is expected to be met by internal accruals. The company has significant planned capex of Rs. 55 crore that will be partly funded by debt, which is already sanctioned, and balance will be met by internal accruals.

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. TD/OPBDITA lower than 2.5 times on a sustained basis may result in a rating upgrade.

Negative factors – The outlook could be revised to stable if there is a material 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 is a public limited company involved in manufacturing tin cans and trading tin plates. Mr. Sanjay Bhatia, Managing Director and part of the promoter family entered the business in 1977 and has more than three decades of experience today. HTWL is among the largest players in the tin can industry in India with 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)

Consolidated	FY2021	FY2022	9M FY2023
Operating income	328.3	410.4	386.6
PAT	14.6	15.2	12.5
OPBDIT/OI	10.5%	8.1%	7.6%
PAT/OI	4.4%	3.7%	3.2%
Total outside liabilities/Tangible net worth (times)	0.8	0.7	-
Total debt/OPBDIT (times)	2.6	2.5	-
Interest coverage (times)	3.9	4.2	-

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021		Date & rating in FY2020
				Feb 28, 2023	Nov 03, 2021	Oct 14, 2021	Jan 08, 2021	Apr 17, 2020	Sep 19, 2019
1 Term loan	Long Term	89.74	27.87	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)
2 Working capital limits	Long Term	113.77	113.77	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)
3 LC/BG	Short Term	50.20	50.20	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2+
4 Unallocated	Long Term	6.49	6.49	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)
5 Unallocated	Short Term	9.80	9.80	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2+

Source: Company

Complexity level of the rated instruments

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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based/Term loan	2015	NA	2028	89.74	[ICRA]BBB+(Positive)
NA	Fund-based/Working capital limits	-	NA	-	113.77	[ICRA]BBB+(Positive)
NA	Non-fund Based-LC/BG	-	NA	-	50.20	[ICRA]A2
NA	Long-term/Unallocated	-	NA	-	6.49	[ICRA]BBB+(Positive)
NA	Short-term/Unallocated	-	NA	-	9.80	[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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