December 22, 2023

Borosil Limited: Ratings reaffirmed, removed from Rating Watch and Stable Outlook assigned; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based – Cash Credit	25.00	2.00	[ICRA]A+; reaffirmed and removed from watch with developing implication and Stable outlook assigned
Long-term/Short-term – Fund-based	60.00	135.00	[ICRA]A+/[ICRA]A1+; reaffirmed and removed from watch with developing implication and Stable outlook assigned; assigned for enhanced limits
Long-term/Short-term – Non-fund based	6.00	-	-
Short-term –Non-fund based	-	1.20	[ICRA]A1+; assigned
Long-term – Fund based – Term Loan	125.00	146.35	[ICRA]A+; reaffirmed and removed from watch with developing implication and Stable outlook assigned; assigned for enhanced limits
Total	**216.00**	**284.55**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action on the bank facilities of Borosil Limited (BL or company) follows National Company Law NCLT's approval for the scheme of demerger of BL's scientific business and industrial product (SIP) business into Borosil Scientific Limited (BSL). ICRA notes that BL will continue to operate its consumer product business, and its overall credit profile is expected to remain stable.

While reaffirming the ratings, ICRA continues to favourably consider the company`s established brand presence in the consumer ware business, its diverse product offerings in glassware, glass microwavable, non-glassware (primarily hydra and small kitchen appliances) and opal ware categories. BL has a well-entrenched distributor network in the domestic market and a diversified customer base with reputed clients. ICRA notes that BL's operations will focus on its consumer business, going forward, potentially reducing the diversification and scale as compared to its earlier profile.

Nevertheless, given the favourable demand profile for its premium opal ware and non-glassware business, along with the capacity expansion in its opal ware business, in the recent past is also expected to drive the revenue growth and earnings in the medium to long term. The ratings also consider the company's rising share of revenues from the margin accretive opal ware segment, driven by rising affluence in Indian households leading to lifestyle changes, the promoter's proven experience in the glassware business, and its strong brand recall.

For H1 FY2024, the company's consolidated revenues were ~Rs. 563 crore, of which 73% came from its consumer ware business. Despite the demerger of the SIP business, we expect BL's revenues and earnings profile to be unaffected over the medium term, given the favourable demand outlook for its premium opal ware and non-glassware business. Further, the debt metrics are also expected to remain comfortable, considering the limited debt-funded capex planned over the medium term and healthy cash accruals expected in the consumer ware business.

The ratings, however, remain constrained by BL's high working capital intensive nature of operations emanating from its inherently large inventory requirements amid a wide product profile and substitution risks from alternative products, along with intense competition from organised and unorganised players in the consumer ware business. Also, the company's profitability remains exposed to foreign currency fluctuation risk, given its dependence on imports; although this is partly mitigated by the hedging mechanism in place.

ICRA also notes that the company is in the middle of capex spend of ~Rs. 470 crore for the FY2023-FY2025 period. The capex is towards doubling its capacity in the opal ware business along with a borosilicate glass project and a solar power unit of about 8.6 MWp DC capacity. The operations for the enhanced opal ware capacity commenced from January 2023, while commercialisation of the borosilicate furnace is expected from January 2024. Given that the capex is partially debt-funded to the tune of ~Rs. 150 crore, the coverage metrics in the near term are expected to moderate and improve, once the full commercialisation benefits are available. Going ahead, the company's ability to achieve healthy capacity utilisation levels with commensurate returns for its ongoing capex without any time and cost overruns would remain a critical monitorable.

The Stable outlook on BL's rating reflects ICRA's opinion that its credit profile will continue to benefit from its established brand presence in the consumer ware product business and the growing customer preference for premium dining ware.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters in table and kitchenware business – The promoters have extensive experience and the company has a strong track record in the table and kitchenware segment. Over the years, BL has established itself as a well-recognised brand in the domestic market for table and kitchenware products.

Diversified product offering in consumer ware business – BL caters to all segments of table and kitchenware, including opal ware, glass microwavable products, tumblers, etc. It has also visible presence in small kitchen appliances and the hydra bottles range. However, with its scientific business moving out after the demerger at a broader level, the business diversification will be constrained in the near term and improve over the medium term with growing focus on the non-glassware business. Further, for H1 FY2024, the company's consolidated revenues were ~Rs. 563 crore, of which its consumer ware business accounted for ~Rs. 411 crore. Going forward, BL's revenues and earnings are expected to remain largely unaffected, given the favourable demand outlook for the consumer ware business.

Strong distribution network; established and diversified customer base - BL has a well-entrenched network of distributors and retailers across the country. It also engages in institutional and business-to-business (B2B) sales along with strong channel distribution through e-commerce and large format stores. In addition, the company drives a notable business through online sales. Moreover, it has an established client base with several repeat customers owing to its established brand presence over the years.

Credit challenges

Commensurate returns from large, ongoing, partially debt-funded capex remains critical from credit perspective – The company's ongoing capex of ~Rs. 470 crore is towards enhancing its opal ware manufacturing capacities, borosilicate furnace and solar power plant addition for the period FY2023-FY2025. The capex has been partially funded through term loans of ~Rs. 150 crore and the rest through cash accruals and liquid balances. The enhanced capacity for opal ware commenced operations from January 2023 and the borosilicate furnace is expected to be commercialised from January 2024. Therefore, BL's ability to efficiently manage and generate adequate returns by scaling up its operations remains critical from a credit perspective.

High working capital intensive nature of operations because of high inventory requirements – The operations of the company remain highly working capital-intensive owing to the high inventory requirements as well as inventory build-up for the seasonal festive demand. With over 1,500 types of products sold under the Borosil brand, the company has to maintain high levels of inventory at warehouses to promptly service its customer requirements.

Impact of divestment of SIP division on revenues; although doubling of capacity in opal ware and press ware to offset the risk partially – At a consolidated level, SIP contributed ~28% to BL's sales in FY2023 over ~32% in FY2022. With the demerger of the SIP business, the company's scale of operations will be impacted in the near term. However, comfort is drawn from the expected enhanced focus on consumer ware and the recent capex for doubling capacity in the value-added opal ware segment, along with addition of borosilicate glass manufacturing by January 2024. The same should eventually support the top line for the demerged entity. Additionally, the company's growing market for hydra and small kitchen appliances should support the top line in the near to medium term.

Environment and Social Risks

Environmental considerations: The company primarily uses glass in its manufacturing process, which is a sustainable material. It is 100% recyclable, does not lead to harmful carcinogens and neither does it pollute water. However, the major environmental impact of glass production is caused by atmospheric emissions from melting activities. Also, the manufacturing process results in wastewater generation. The waste generated from the plants or processes are recycled and re-used through wastewater treatment plants, leading to reduction in freshwater intake. Any lapse in waste management or emission control policies can attract fines or punitive action that can impact business continuity.

Social consideration: Considering the labour-intensive nature of its operations, BL is exposed to the risk of disruption from its inability to properly manage human capital in terms of their safety and overall well-being. BL is also exposed to the shortage of a skilled workforce and exposure to chemicals, which can impact operations. However, the company conducts regular training and development programmes for the professional development of employees and improvement in participation and teamwork.

Liquidity position: Strong

BL's liquidity position is strong, supported by stable cash flow from operations, sizable free cash and bank balances, and liquid investments of ~Rs. 60 crore at a standalone level (as on September 30, 2023). The same is expected to continue at similar levels for the continuing entity, indicating a favourable liquidity position. Further, the liquidity is also supported by sizeable buffer of ~Rs. 80 crore in fund-based limits. The repayment of term loans is expected to be adequately covered by cash accruals, going forward. Also, under the demerger process, BL is required to pay ~Rs. 98 crore to BSL. ICRA does not foresee any stress on liquidity towards this payment, given the liquid balances and expected cash accruals. Also, there remains flexibility for this payment given the inter-group nature of payment with requisite approval for any changes as per business needs.

Rating sensitivities

Positive factors – ICRA may upgrade BL's rating if the company demonstrates healthy growth in scale of operations and profitability, leading to sustained improvement in return indicators and debt coverage metrics along with improvement in working capital cycle. Specific metrics that could lead to an upgrade include TD/OPBDITA below 1.0 times on a sustained basis.

Negative factors – Downward pressure on the rating could emerge because of any material decline in revenues and margins or any large unanticipated debt-funded capex that weakens the overall financial profile. Any material deterioration in liquidity profile on a sustained basis will also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

BL currently houses the business of glass microwaveable table and kitchenware, opalware and non-glassware (primarily hydra and small kitchen appliances) range of products. It sells and markets its products through more than 25,000 retail outlets. It has two manufacturing facilities at Bharuch (Gujarat) and Jaipur (Rajasthan). Prior to the demerger, BL's operations consisted of SIP segment which included laboratory glassware, laboratory instruments, pharma packaging and newly acquired process chemistry business; and CP segment which includes glass microwaveable table and kitchenware, non-glassware as well as opalware products. The glass microwaveable table and kitchenware products and non-glassware products are sold under the flagship, 'Borosil' brand, while opalware products are sold under the 'Larah' brand.

Key financial indicators (audited)

BL - Standalone*	FY2022	FY2023	H1FY2024
Operating income	751.5	958.6	511.9
PAT	77.5	94.1	43.5
OPBDIT/OI	17.1%	12.7%	15.5%
PAT/OI	10.3%	9.8%	8.5%
Total outside liabilities/Tangible net worth (times)	0.2	0.3	0.5
Total debt/OPBDIT (times)	0.0	0.8	1.3
Interest coverage (times)	159.3	61.1	23.2

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *The above numbers includes both CP and SIP segments; following the NCLT order dt. November 2, 2023, SIP segment is demerged to BSL*

BL - Consolidated*	FY2022	FY2023	H1FY2024
Operating income	841.2	1028.9	562.6
PAT	85.2	90.2	29.9
OPBDIT/OI	17.2%	12.5%	12.8%
PAT/OI	10.1%	8.8%	5.3%
Total outside liabilities/Tangible net worth (times)	0.2	0.4	0.5
Total debt/OPBDIT (times)	0.0	0.8	1.6
Interest coverage (times)	129.8	53.5	14.9

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *The above numbers includes both CP and SIP segments; following the NCLT order dt. November 2, 2023, SIP segment is demerged to BSL*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sept 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Dec 22, 2023	Sep 20, 2022	Feb 16, 2022	Apr 13, 2021	Dec 30, 2020
1	Fund based – Cash Credit	Long-term	2.00	-	[ICRA]A+ (Stable)	[ICRA]A+&	[ICRA]A+&	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Fund based	Long-term/Short-term	135.00	-	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+&/ [ICRA]A1+&	[ICRA]A+&/ [ICRA]A1+&	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+
3	Non-fund based	Long-term/Short-term	-	-	-	[ICRA]A+&/ [ICRA]A1+&	[ICRA]A+&/ [ICRA]A1+&	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+
4	Non-fund based	Short-term	1.20	-	[ICRA]A1+	-	-	-	-
5	Fund based – Term Loan	Long-term	146.35	129.78	[ICRA]A+ (Stable)	[ICRA]A+&	-	-	-

&: Rating Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term: Fund based – Cash Credit	Simple
Long-term/Short-term: Fund based	Simple
Short-term: Non-fund based	Very Simple
Long-term: Fund based – Term Loan	Simple

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	Cash Credit	-	NA	-	2.00	[ICRA]A+ (Stable)
NA	Fund based*	-	NA	-	135.00	[ICRA]A+(Stable)/[ICRA]A1+
NA	Non-fund based	-	-	-	1.20	[ICRA]A1+
NA	Term Loan	FY2022	NA	FY2032	146.35	[ICRA]A+ (Stable)

*Source: Company; * CC, WCDL, EPC/PCFC*

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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About ICRA Limited:

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