

March 07, 2024

Hindustan Tin Works Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loan	89.74	74.57	[ICRA]BBB+(Positive); reaffirmed
Long-term – Fund-based working capital limits	113.77	103.77	[ICRA]BBB+(Positive); reaffirmed
Short-term Non-fund-based limits – LC/BG	50.20	50.20	[ICRA]A2; reaffirmed
Long-term – Unallocated	6.49	31.66	[ICRA]BBB+(Positive); reaffirmed
Short-term – Unallocated	9.80	9.80	[ICRA]A2; reaffirmed
Total	270.00	270.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation considers 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. The Positive outlook reflects ICRA's opinion that, going forward, the company will benefit from its expanded capacities by way of receiving higher export business. However, the company's ability to timely implement the said capex, ramp up the utilisation and improve the credit metrics will be a key rating monitorable.

The ratings are, however, constrained by the high working capital intensity of the business, driven by high debtor and inventory levels. Moreover, the company has had high level of aged debtors and has been making provisions for the same (Rs. 4.38 crore in 9M FY2024 over Rs. 2.36 crore in FY2023). 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. The same is evident in the moderation of earnings in the current fiscal as compared to earlier expectations, primarily owing to a correction in tin prices. 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.

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.

Investment in new unit augurs well for export prospects; ongoing capex expected to improve the credit metrics – HTWL is undertaking substantial capex of ~Rs. 50 crore, which is being partly funded by debt. The same is expected to debottleneck the existing capacities and further streamline production capabilities, especially for the export segment. The project is expected to be completed by H1 FY2025. The company will be availing a large part of the planned debt in this period. A healthy ramp up of operations from this unit would enable the company to witness an improvement in its credit metrics; however, the pace of the same is a key rating monitorable.

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. 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. The company is one of the key vendors for some products of these clients. HTWL's established relationships with its customers have resulted in repeat business. Its top five customers continued to account for ~36% of its revenues in FY2023.

Credit challenges

High working capital intensity given long receivables period and high stocking requirements – The company operates in a working capital-intensive business and has high debtor levels, along with considerable outstanding debtors of greater than six months. The inventory levels remained high in FY2021 and FY2022 owing to significant rally witnessed in the tin prices, which has seen a correction in FY2023 and the current fiscal, and is expected to remain at similar levels, going forward. The greater-than-six months' receivables, which are primarily from the trading division, remain a concern. Moreover, due to the same, the company is consistently making provisions, which suppresses profitability to some extent. HTWL has made provisions of Rs. 4.3 crore in 9M FY2024. Despite the same, the margins have improved to 8.6% in 9M FY2024 from 7.2% in FY2023. The working capital intensity corrected in FY2023 owing to a drop in tin prices and debtor provisioning; however, the same remains moderately high at 33%.

Exposure to raw material price volatility and forex risk, although with ability to pass on high prices – HTWL's profit margins largely remain exposed to volatility in raw material prices, though it manages to pass on large variations with a lag. The margins also fluctuate with the share of tin plate trading revenues in the total revenue pie, which is being downsized progressively. The company's earnings have moderated in the current fiscal over earlier expectations, led by lower tin prices. However, ICRA notes that HTWL has been ramping up higher-margin products like aerosol cans. Also, with exports constituting ~22% of its turnover, the company is exposed to adverse movements 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 contamination and a longer shelf life as well.

Liquidity position: Adequate

HTWL's liquidity position is adequate due to a healthy cushion in working capital limits to the tune of ~Rs. 38 crore as of January 2024 and modest free cash levels. It has Rs. 10.8 crore and Rs. 14.5 crore of expected repayments in FY2024 and FY2025, respectively, which are set to be met by internal accruals. The company has significant planned capex of ~Rs. 35-40 crore for FY2025 that will be partly funded by debt, which is already sanctioned, and partly 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/OPBIDTA 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.

Environmental & Social Risk

Environmental considerations: HTWL is one of the biggest players in the manufacturing of cans and other tin-based packaging solutions. Environmental risks for industry players include limited recyclability of the tin cans. However, the company maintains that it follows 100% recyclability of its waste. In addition, the tin cans help to provide an alternative to plastic products, which are more hazardous to the environment. Compared to composite plastic/polymers, tin cans have higher recyclability.

Social considerations: HTWL is exposed to social risks, including shifts in consumer preference for other packaging alternatives. Further, HTWL faces high dependence on human capital. Retaining human capital, maintaining healthy employee relationships and a safe work environment remain essential for disruption-free operations.

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. The company is also setting up an export focused unit at Sonipat, Haryana.

Key financial indicators (audited)

	FY2022	FY2023	9M FY2024*
Operating income	410.4	466.8	331.6
PAT	15.2	16.5	14.0
OPBDIT/OI	8.3%	7.2%	8.6%
PAT/OI	3.7%	3.5%	4.2%
Total outside liabilities/Tangible net worth (times)	0.7	0.5	-
Total debt/OPBDIT (times)	2.5	2.2	-
Interest coverage (times)	3.9	4.3	6.2

Source: Company, ICRA Research; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; * Provisional numbers; All ratios as per ICRA's calculations; 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 (FY2024)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	
				Mar 07, 2024	FEB 28, 2023	Nov 03, 2021	Oct 14, 2021	Jan 08, 2021	Apr 17, 2020
1 Term loans	Long term	74.57	32.57	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)
2 Working capital limits	Long term	103.77	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)
3 LC/BG	Short term	50.20	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
4 Unallocated	Long term	31.66	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)
5 Unallocated	Short term	9.80	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

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/Working capital limits	NA	NA	NA	103.77	[ICRA]BBB+(Positive)
NA	Fund-based/Term loan	2015	NA	2028	74.57	[ICRA]BBB+(Positive)
NA	Long Term-Unallocated	NA	NA	NA	31.66	[ICRA]BBB+(Positive)
NA	Non-fund Based-LC/BG	NA	NA	NA	50.20	[ICRA]A2
NA	Short Term-Unallocated	NA	NA	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

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545 328

shamsherd@icraindia.com

Kinjal Shah

+91 022 61143400

kinjal.shah@icraindia.com

Sheetal Sharad

+91 124 4545 308

sheetal.sharad@icraindia.com

Susovan Mondal

+91 124 4545 392

susovan.mondal@icra.india.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

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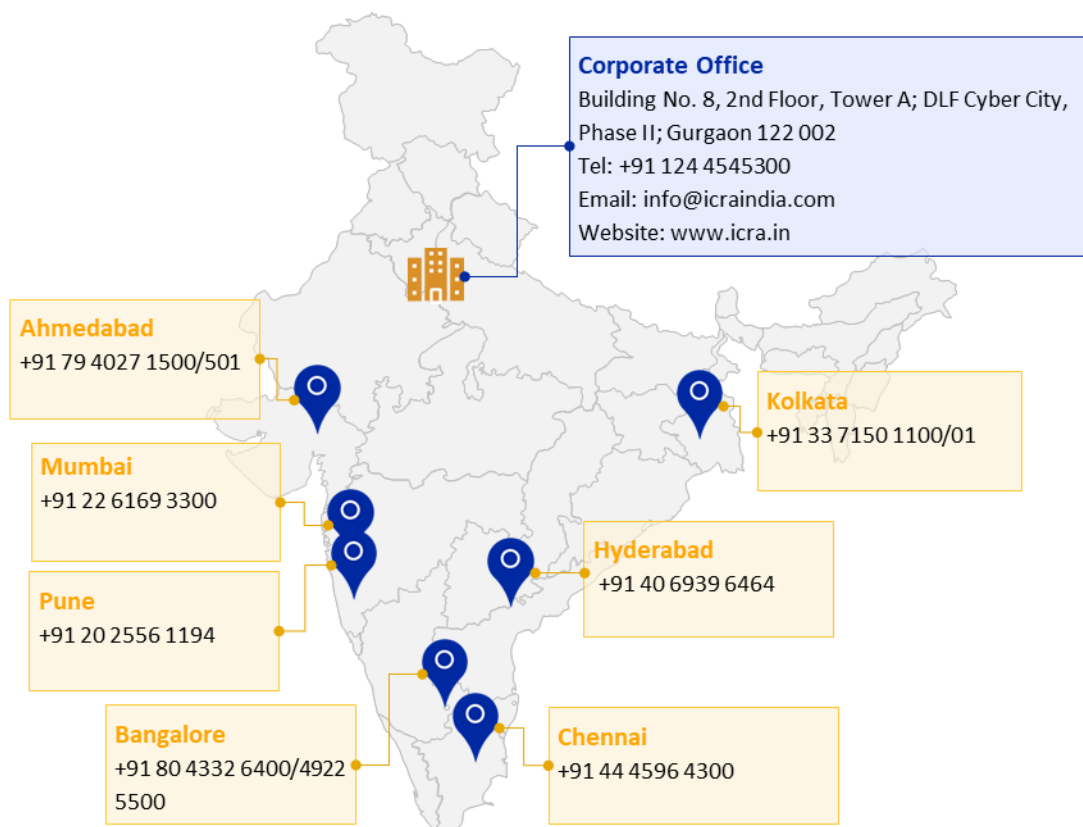


Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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