

January 16, 2017

Piramal Glass Limited

Instrument	Amount	Rating Action
Long-term Loan	Rs. 200.0 crore (enhanced from Rs. 50.0 crore)	[ICRA]BBB+ (positive) assigned/ outstanding
Long-term/ Short-term, Fund- Based Limits**	Rs. 315.0 crore	[ICRA]BBB+ (positive)/ [ICRA]A2 outstanding
Short-term, Non-Fund Based Limits	Rs. 150.00 crore	[ICRA]A2 outstanding
Short-Term Loans	Rs. 500.0 crore	[ICRA]A2 outstanding

* Instrument Details are provided in Annexure-1; **Fund-based limits are completely interchangeable between long-term and short-term exposures such that the total fund-based limits utilisation should not exceed Rs 315 crore.

Rating Action

ICRA has assigned an [ICRA]BBB+ (pronounced ICRA triple B plus) rating to the Rs. 150.0 crore,¹ long-term loans (enhanced to Rs. 200.0 crore from Rs. 50.0 crore) of Piramal Glass Limited (PGL)². The outlook on the long-term rating is Positive.

ICRA also has a short-term rating of [ICRA]A2 (pronounced ICRA A two) outstanding on the Rs. 500.0 crore, short-term loans and the Rs. 150.0 crore, short-term, non-fund based limits, and [ICRA]BBB+ (positive)/ [ICRA]A2 ratings outstanding on the Rs. 315.0 crore, long-term/ short-term, fund-based limits of PGL. The fund based limits are completely interchangeable between long-term and short-term exposures such that the total fund-based limits utilisation should not exceed Rs. 315.0 crore.

Rationale

The rating assigned takes into consideration the improved financial profile of the company, as evinced by healthier margins, return indicators and coverage metrics, following the streamlining of operations at its facilities and further supported by the soft input prices in FY2016. ICRA expects the company to continue to witness improvement in the financial profile on account of improved operational efficiency and sustained demand indicators across all the business segments, which are key rating sensitivities. The rating also factors in the established presence of the company in the glass bottle manufacturing business, market leadership in the pharmaceutical glass and mass cosmetic & perfumery (C&P) segments, and increasing presence in the relatively high margin premium C&P segment. The rating favourably factors in the financial flexibility and management strength derived by PGL by virtue of being an Ajay Piramal group company.

The ratings however remain constrained by the moderate capital structure and weak coverage indicators stemming from the high inventory holding requirements typical in the industry, leading to high working capital intensity of operations. ICRA also notes that the operations of the company are susceptible to volatility in raw material and fuel prices, as well as foreign currency fluctuations, though the latter risk is partly mitigated by way of well-defined hedging policies. The ratings also take into account the increasing penetration of plastic substitutes in the pharmaceutical packaging market which have pressurised margins in the segment.

The company is expected to undertake debt-funded capital expenditure pertaining to relining of its furnaces in a bid to improve their operational efficiency. ICRA also notes that PGL is expected to undergo a cash outflow of ~Rs. 60 crore towards the buyback of existing shares from the public and paying off of rights in FY2017. However, these developments are not expected to increase the borrowing levels and the company is expected to maintain its comfortable credit profile.

¹100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website, www.icra.in, or other ICRA Rating Publications

Key Rating Drivers

Credit Strengths

- Improvement in the financial profile in FY2016 characterised by healthier profitability and coverage metrics on the back of stabilisation of operations at the Jambusar facility and softer input (raw material and fuel) prices
- Global player in the glass packaging industry with diversified revenue streams and market leadership (~45% market share) in the domestic pharmaceutical packaging industry
- Market leader in the mass segment of the cosmetic & perfumery (C&P) market
- Increasing presence in the high margin premium C&P segment
- Part of Mumbai-based Ajay Piramal Group lends financial flexibility and management strength

Credit Weakness

- Profitability levels susceptible to fluctuations in raw material and fuel prices, as the same is difficult to pass on to overseas customers
- Moderate capital structure and high working capital intensity of operations due to high inventory holding requirements
- Exposure to foreign currency fluctuation risk; however, partially mitigated by hedging through forward covers
- Increasing penetration of plastic substitutes in the pharmaceutical packaging market pressurising margins in the segment

Description of key rating drivers highlighted above:

The company's key growth driver has been the C&P segment, which contributed to 40% of PGL's revenues in FY2016. PGL is one of the key players in the segment globally, with a global market share of 5.8% (of the total C&P market). In the mass-market C&P segment, it has a 30% market share. In the premium cosmetics segment that accounts for bulk (77%) of the global C&P market, the company has marginal but growing presence. In line with the long-term strategy of rationalising its product mix in favour of the high-margin premium segment, PGL derived nearly 52% of the revenues from the C&P segment in FY2016 from the premium products, vis-à-vis 45% till FY2014. The overall C&P division revenues have grown at 4% y-o-y to Rs. 826.0 crore in FY2016, supported by the revival in demand for premium nail polish bottles in both the domestic and overseas markets post FY2014. The streamlining of operations of the trouble-wrecked 160 TPD furnace at Jambusar in FY2016 has aided the uninterrupted manufacturing of mass market C&P products. Also, the operations at the US-based subsidiary have turned around in FY2016, after the operational setbacks suffered in FY2015. Consequently, production volumes have improved by 16% y-o-y in FY2016. Nearly 70% of the C&P products are exported, while the balance is deemed exports.

The company continues to maintain a market share of 45% in the domestic pharmaceuticals glass packaging industry; though at the global level, its share is marginal. Lower-margin Type III glass bottles continue to dominate the pharmaceuticals portfolio of PGL. As regards the Speciality Food & Beverage (SF&B) segment, the furnace at Sri Lanka was approaching the end of its life cycle. Hence, the production volumes witnessed a marginal y-o-y decline in FY2016. Nevertheless, given the dominant position of PGL in the Sri Lankan SF&B glass packaging industry (PGL commands more than 90% of the market share in that geography), the revenues from this division have continued to grow at 20% y-o-y in FY2016.

In H1 FY2017, the company undertook a capital expenditure of ~Rs. 125-130 crore towards relining of the furnaces and capacity augmentation by 50 TPD at the Sri Lankan facility. This project has been funded entirely by way of loans availed from the local banks. Consequently, the furnaces at Sri Lanka have witnessed a downtime of ~65 days, which has resulted in a muted y-o-y growth of 2% in revenues to Rs. 254.5 crore in H1 FY2017. The furnaces however, have re-commenced operations in October 2016. Over FY2016 and H1 FY2017, the company has also undertaken the relining of two domestic furnaces (100 TPD and 55 TPD), at a total cost of Rs. 65 crore, which has been funded by way of bank loans of ~Rs. 41 crore, and the balance through internal accruals. However, despite these debt-funded capital expenditure, the financial profile of the company is comfortable.

Analytical Approach: For arriving at the ratings, ICRA has taken a consolidated view of PGL, along with its six subsidiaries.

Links to applicable Criteria

Corporate Credit Ratings – A Note on Methodology

About the Company

Incorporated in 1974, Piramal Glass Limited (PGL, erstwhile Gujarat Glass Limited) was acquired by the Piramal Group in 1984, and eventually, in 1990, merged with Piramal Healthcare Limited (PHL, erstwhile Nicholas Piramal India Limited). In 1998, the glass division was spun-off to a subsidiary, and subsequently, PE investors picked up 46% stake in this subsidiary. After restructuring operations, in July 2003, PHL divested its 54% holding in Piramal Glass to a new subsidiary, Kojam Fininvest, which was subsequently listed. This was followed with the merger of Kojam Fininvest into PGL, resulting in de-listing of the former. The merged entity was later re-listed as Piramal Glass Limited with effect from February 2008. PGL has five manufacturing locations - two in India, one in Sri Lanka and two in USA, with a total capacity of 1,410 tonnes per day (TPD) (augmented from 1,370 TPD in FY2016).

PGL has six subsidiaries, of which two - Ceylon Glass and Piramal Glass USA - are operating subsidiaries and own manufacturing locations in Sri Lanka and USA, respectively. The other four subsidiaries have primarily been set up either to develop PGL's exports or as marketing companies in USA and UK.

While the company had been listed in the BSE and the NSE since February 2008, it has been delisted from both stock exchanges effective from July 2014. The equity shares of the company held by the public have been acquired by Sri Hari Trust³, acting through its corporate trustee PEL Management Services Private Limited, at a price of Rs. 140 per share. The acquisition process is nearing completion, with the balance public shareholding of 2.21% expected to be bought back by the company by the end of FY2017.

Recent Results

During the 12-month period ended March 31, 2016, the company (on a consolidated level) reported a profit after tax (PAT) of Rs. 179.8 crore on an operating income of Rs. 2,138.7 crore as compared to a PAT of Rs. 3.5 crore on an operating income of Rs. 1,924.0 crore during the 12-month period ended March 31, 2015.

During the 6-month period ended September 30, 2016, the company (on a consolidated level) reported a PAT of Rs. 89.8 crore on an operating income of Rs. 1,091.9 crore

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

³ Most of the promoter holdings of Mr. Ajay Piramal and his family in the listed investee entities are managed through two trusts - Sri Hari Trust and Sri Krishna Trust.

Rating History for last three years
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month-year & Rating in FY2017	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month- year & Rating in FY2015	
							July 2014	June 2014
1	Term Loans	Long-term	200.0	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	Fund-based facilities	Long-term/ Short-term	315.0	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BB+ (Stable)/ [ICRA]A2
4	Non-fund based facilities	Short-term	150.0	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
5.	Short Term Loans	Short-term	500.0	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

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

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loan 1	March 2014	10.75% per annum	March 2019	50.0	[ICRA]BBB+(positive)
Term Loan 2	March 2016	10.25% per annum	March 2020	150.0	[ICRA]BBB+(positive)
Fund based facilities	-	11.50% - 12.50% per annum	-	315.0	[ICRA]BBB+(positive)/[ICRA]A2
Non-fund based facilities	-	-	-	150.0	[ICRA]A2
Short Term Loans	-	8.75% - 9.25% per annum	-	500.0	[ICRA]A2

Name and Contact Details of the Rating Analyst(s):

Subrata Ray
+91 22 2433 1086
subrata@icraindia.com

Manikankana Ray
+91 22 6114 3417
manikankana.ray@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Name and Contact Details of Relationship Contacts:

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500