

August 04, 2017

## Piramal Glass Limited

### Summary of rated instruments

| Instrument*                                 | Rated Amount<br>(in Rs. crore) | Rating Action                                |
|---------------------------------------------|--------------------------------|----------------------------------------------|
| Long-term, term loans                       | 200.00                         | [ICRA]BBB+ (positive); re-affirmed           |
| Long-term / Short-term, fund-based limits** | 315.00                         | [ICRA]BBB+ (positive)/ [ICRA]A2; re-affirmed |
| Short-term, non-fund based limits           | 150.00                         | [ICRA]A2; re-affirmed                        |
| Short-term loans                            | 500.00                         | [ICRA]A2; re-affirmed                        |

\*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 re-affirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus)<sup>1</sup> to the Rs. 200.00 crore<sup>2</sup> long-term, term loan facilities of Piramal Glass Limited ('PGL'). ICRA has also re-affirmed the short-term rating of [ICRA]A2 (pronounced ICRA A two) to the Rs. 150.00 crore short-term, non-fund based bank facilities and the Rs. 500.00 crore short-term loans of PGL. The outlook on the long-term rating is 'positive'. ICRA has also re-affirmed the long-term rating of [ICRA]BBB+ and short-term rating of [ICRA]A2 to the Rs. 315.00 crore long-term / short-term, fund-based facilities of PGL. The outlook on the long-term rating is 'positive'.

### Rationale

The ratings factor in the sustained financial profile of the company, as evinced by its healthy margins, and coverage indicators, supported by the soft input prices in FY2017. ICRA expects the company to maintain its healthy financial profile on account of improved operational efficiency and sustained demand indicators across all 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 and perfumery (C&P) segments. ICRA notes PGL's increasing presence in the relatively high margin, premium C&P segment. The rating favourably factors in the financial flexibility and management strength of PGL as an Ajay Piramal Group company.

The ratings, however, remain constrained by the moderate capital structure and high working capital intensity of operations due to high inventory holding requirements and need for continuous capital expenditure. 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, although the latter risk is partly mitigated by well-defined hedging policies. Also, several steps taken by the company to control fuel costs mitigates the risk to certain extent.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 100 lakh = 1 crore = 10 million

## Key rating drivers

### Credit strengths

- **Sustained improvement in financial profile in FY2017, characterised by healthy profitability and coverage metrics on the back of softer input prices** – The operating profit margin of the company remained strong at 22.50% in FY2017 following the softening of power and fuel costs. Measures undertaken to control fuel costs (renegotiation of natural gas supply contracts for shorter periods) and reduced freight costs have supported the improvement in operating profit margins. This also led to better coverage indicators in FY2017 as reflected by OPBITDA/Interest of 6.78 times and NCA/Total debt of 36% in FY2017.
- **Global player in the glass packaging industry with diversified revenue streams and market leadership in the domestic pharmaceutical packaging industry** – PGL's manufacturing operations are spread across India, Sri Lanka and the USA. It derives revenues from the C&P, pharmaceutical and speciality foods and beverages (SF&B) segments. C&P contributes the majority of its revenues (38% in FY2017), followed by its pharmaceutical (37%) and SF&B (25%) segments. PGL is a market leader in the pharmaceutical glass segment with 45% of the domestic market share.
- **Market leader in the C&P mass market segment** – PGL accounts for 40-45% of the mass market segment, contributing 48% to C&P sales in FY2017.
- **Increasing presence in the high margin premium C&P segment** – The company enjoys a marginal but growing presence in the premium cosmetics segment that accounts for the bulk of the global C&P market.
- **Part of Mumbai-based Ajay Piramal Group lends financial flexibility and management strength**

### Credit weaknesses

- **Profitability levels susceptible to fluctuations in raw material and fuel prices, as the same is difficult to pass on to overseas customers** – The operating profitability has moved in line with the fluctuation in raw material and fuel prices. However, with the regular churning of product designs, PGL is able to revise the prices accordingly, thus mitigating to risk to certain extent. The company has benefited from the decrease in crude prices over the last two years and recorded strong growth in profitability. The company is also in the process to take various steps to control power and fuel costs which will mitigate the risk to certain extent going ahead.
- **Moderate capital structure and high working capital intensity of operations due to high inventory holding requirements and need for continuous capital expenditure** – The gearing as on March 31, 2017, stood moderate at 1.77 times, although improved from 2.07 times as of March 31, 2016. Due to the nature of the business, its inventory holding period is higher, resulting in high working capital intensity of operations. In order to extend the useful life of the furnaces, the company undertakes regular relining and capacity augmentation activities.
- **Exposure to foreign currency fluctuation risk; however, partially mitigated by hedging through forward covers** – As the company imports raw materials, exports goods and has foreign currency borrowings, its profitability is exposed to foreign exchange fluctuation risks. However, the risk is mitigated by hedging significant portion of the foreign exchange exposure through forward contracts.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

### About the company:

Incorporated in 1974, Piramal Glass Limited (PGL, erstwhile Gujarat Glass Limited) was acquired by the Piramal Group in 1984. In 1990, it was merged with Piramal Healthcare Limited (PHL, erstwhile Nicholas Piramal India Limited), and in 1998, the glass division was spun off to a subsidiary. Subsequently, private equity (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 by the merger of Kojam Fininvest into PGL and the merged entity was later re-listed as Piramal Glass Limited with effect from February 2008. PGL has five manufacturing locations—two each in India and the US, and one in Sri Lanka—with a total capacity of 1,410 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 were primarily set up either to develop PGL's exports or as marketing companies in the USA and UK.

While the company had been listed in the Bombay Stock Exchange (BSE) and the National Stock Exchange (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 Trust<sup>3</sup>, acting through its corporate trustee, PEL Management Services Private Limited, at a price of Rs. 140 per share. However, certain number of public shares was pending for buyback, which was completed in FY2017.

During the 12-month period ended March 31, 2017, the company (on a consolidated level) reported a profit after tax (PAT) of Rs. 147.44 crore on an operating income (OI) of Rs. 2180.00 crore as compared to a PAT of Rs. 231.54 crore on an OI of Rs. 2140.74 crore during the 12-month period ended March 31, 2016.

### Key Financial Indicators (Audited)

|                              | FY2016  | FY2017  |
|------------------------------|---------|---------|
| Operating Income (Rs. crore) | 1240.75 | 2180.00 |
| PAT (Rs. crore)              | 231.54  | 147.44  |
| OPBDIT/ OI (%)               | 22.34%  | 22.50%  |
| RoCE (%)                     | 18.85%  | 19.08%  |
|                              |         |         |
| Total Debt/ TNW (times)      | 2.07    | 1.77    |
| Total Debt/ OPBDIT (times)   | 2.47    | 2.32    |
| Interest coverage (times)    | 4.72    | 5.46    |
| NWC/ OI (%)                  | 34%     | 27%     |

OI: Operating Income; 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);  
NWC: Net Working Capital

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

<sup>3</sup> 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:**

| S.No | Name of Instrument        | Current Rating        |                          |                                 | Chronology of Rating History for the past 3 years |                                 |                                |                                |                              |
|------|---------------------------|-----------------------|--------------------------|---------------------------------|---------------------------------------------------|---------------------------------|--------------------------------|--------------------------------|------------------------------|
|      |                           | Type                  | Rated amount (Rs. crore) | Month-year & Rating in FY2018   | Month-year & Rating in FY2017                     |                                 | Month- year & Rating in FY2016 | Month- year & Rating in FY2015 |                              |
|      |                           |                       |                          | August 2017                     | January 2017                                      | November 2016                   | August 2015                    | July 2014                      | June 2014                    |
| 1    | Term loans                | Long-term             | 200.0                    | [ICRA]BBB+ (Positive)           | [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+ (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                       | [ICRA]A2                     |
| 5.   | Short-term loans          | Short-term            | 500.0                    | [ICRA]A2                        | [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](http://www.icra.in)

**Annexure-1**  
**Details of Instruments**

| <b>Instrument</b>         | <b>Date of Issuance / Sanction</b> | <b>Coupon Rate</b>        | <b>Maturity Date</b> | <b>Amount Rated (Rs. crore)</b> | <b>Current Rating and Outlook</b> |
|---------------------------|------------------------------------|---------------------------|----------------------|---------------------------------|-----------------------------------|
| 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% - 13.50% 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                          |

Source: Piramal Glass Limited

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