

September 19, 2019

Hindustan Tin Works Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	47.62	37.44	[ICRA]A-; reaffirmed, outlook revised to Negative from Stable
Fund-based Working Capital Limits	114.0	99.0	[ICRA]A-; reaffirmed, outlook revised to Negative from Stable
Non-fund Based Limits – LC/BG	55.0	55.0	[ICRA]A2+ reaffirmed
Unallocated	18.38	43.56	[ICRA]A-; reaffirmed, outlook revised to Negative from Stable
Unallocated	5.0	5.0	[ICRA]A2+ reaffirmed
Total	240.0	240.0	

*Instrument details are provided in Annexure-1

Rationale

The revision in the outlook factors in the anticipated weakening of the demand prospects of Hindustan Tin Work Limited's (HTWL) products amid subdued economic activity, which is likely to result in some moderation in revenues and profit margins in the current fiscal (as demonstrated to some extent in Q1 FY2020). Moderation in profits and accruals coupled with the sizeable debt repayment obligations of the company would result in deterioration of credit metrics in the current fiscal. Additionally, the ratings remain constrained by the high working capital intensity of the business, driven by high inventory and debtor levels, including considerable level of debtors outstanding for greater than six months. This has continued to result in high reliance on external debt, which is expected to continue in the medium term in the backdrop of HTWL's debt-funded capex plans towards upgrade/addition of plant and machinery/infrastructure. The ratings also consider HTWL's moderate profit margins due to limited pricing flexibility owing to intense competition. Sizeable contribution from trading revenues and vulnerability to volatility in raw material prices and foreign exchange rate also constrain the ratings. Moreover, the industry continues to face competition from substitutes such as flexible forms of packaging, which has impacted the demand for tin can packaging in the recent years.

However, the ratings continue to draw comfort from HTWL's position as one of the leading players in the tin can manufacturing industry, supported by its long track record of operations, and wide product mix. Given its locational advantage, the company has developed a wide customer base over the years, which includes reputed corporates such as Nestle India Limited, Asian Paints Limited, and Haldiram Snacks Private Limited, etc. Its long-standing relations with these customers has resulted in repeat business, driving the company's revenue growth over the years. These factors have enabled HTWL to sustain its scale of operations (operating income (OI) of Rs. 339.6 crore in FY2019 against Rs. 319.3 in FY2018) and profitability metrics. Moreover, the presence in exports continues to result in revenue stream diversification.

Key rating drivers

Credit strengths

Among leading players in 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.

Wide customer base comprising reputed corporates – Given its locational advantage due to presence in North India in proximity to most of its customers, the company has been able to develop a wide customer base over the years. This also includes reputed corporates such as Nestle India Limited, Asian Paints Limited and Haldiram Snacks Private Limited, etc. HTWL's long-standing relations with these customers has resulted in repeat business, driving the revenue growth. The top five customers continue to account for 30-35% of the company's revenues.

Steady revenue growth in FY2019 – While export revenues declined by around 8% in FY2019, the same was compensated by an increase in domestic sales, enabling the company to register 6% growth in the fiscal. HTWL's OI increased to Rs. 339.6 crore in FY2019 from Rs. 319.3 crore in the previous fiscal. However, there has been some decline in revenues in Q1 FY2020 and further moderation is likely, given the anticipated weakening of the demand prospects amid subdued economic activity.

Credit challenges

Moderate profitability margins – The company has moderate profitability indicators because of volatility in raw material prices and relatively high proportion of tinsplate trading revenues in the total revenue. As a result, return indicators have also remained moderate with ROCE of 9-10% in the recent years. However, HTWL has largely been able to maintain its profit margins in the past, supported by steady investment towards cost-reduction initiatives and economies of scale.

High working capital intensity – The company has high inventory and debtor levels, alongside considerable level of debtors outstanding for greater than six months, as inherent in the tinsplate trading business. This has continued to result in high reliance on external debt, which is expected to continue given the company's debt-funded capex plans towards upgrade/addition of plant and machinery/infrastructure. The average utilisation of the working capital limits at the month end has been 70-75% in the recent past with some cushion available in the form of undrawn limits.

Intense competition – The competitive and fragmented nature of the industry and substitution risk from alternate packaging materials like plastic and tetra packs limit pricing flexibility of industry participants, including HTWL.

Exposure to foreign exchange risk – As exports constitute around 20-25% of the turnover, the company is exposed to adverse movement in foreign exchange rate. However, it also has sizeable imports which creates a natural hedge and has a selective hedging mechanism for the balance exposure.

Liquidity Position: Adequate

HTWL's liquidity position is **Adequate**, supported by steady internal accrual generation, free cash balances and some cushion in the form of undrawn bank lines. The company had cash flows from operations of ~Rs. 15 crore and free cash balance of ~ Rs. 6 crore in FY2019. Although the debt repayment commitments are sizeable in FY2020, ICRA expects HTWL to be able to meet its commitments adequately.

Rating sensitivities

Positive triggers – Given the Negative outlook, a rating upgrade over the near term is less likely. However, a change in outlook to Stable or upward movement in rating could happen if the company demonstrates consistent growth in its profits and cash accruals along with efficient management of working capital that in turn would aid in strengthening of credit metrics.

Negative triggers – HTWL’s ratings could be downgraded if there is considerable decline in revenues and profitability, any sizeable incremental investments and stretching of working capital cycle. Among others, specific credit metrics that could lead to a downgrade of ratings include decline in interest coverage below 2.25 times and increase in Total Debt/OPBDITA above 4.0 times.

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 (HTWL) is a public limited company involved in manufacturing tin cans and trading tinplate. Mr. Sanjay Bhatia, Managing Director and member of the promoter family, entered the business in 1977 and has more than three decades of experience in this business. HTWL is among the largest players in the tin can industry in India and has expertise in round, irregular tin cans, especially open top sanitary (OTS) cans or food cans. The manufacturing facility of the company is in Murthal, Haryana.

In FY2019, HTWL reported a net profit of Rs. 7.9 crore on an OI of Rs. 339.6 crore compared with a net profit of Rs. 9.6 crore on an OI of Rs. 319.3 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	319.3	339.6
PAT (Rs. crore)	9.6	7.9
OPBDIT/OI (%)	8.5%	8.5%
RoCE (%)	10.7%	9.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	0.9
Total Debt/OPBDIT (times)	4.1	3.5
Interest Coverage (times)	2.8	2.7
DSCR	1.4	1.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
	Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017	
				19- Sep- 2019	10-Sep- 2018	28-Aug- 2017	6-Jun-2016	
1 Term loan	Long Term	37.44	37.44	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (stable)	[ICRA]A- (stable)	
2 Fund based working capital limits	Long Term	99.0	-	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	
3 Non-fund-based limits – LC/BG	Short Term	55.0	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	
4 Unallocated	Long Term	43.56	-	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	
5 Unallocated	Short Term	5.0	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	

Amount in Rs. crore

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: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	2015	-	2022	37.44	[ICRA]A-(Negative)
NA	Fund based working capital limits	NA	-	-	99.0	[ICRA]A-(Negative)
NA	Non-fund-based limits – LC/BG	NA	-	-	55.0	[ICRA]A2+
NA	Unallocated	NA	-	-	43.56	[ICRA]A-(Negative)
NA	Unallocated	NA	-	-	5.0	[ICRA]A2+

Source: Hindustan Tin Works Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
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