October 04, 2019

Borosil Glass Works Limited: Ratings reaffirmed, continues to remain on watch with developing implications; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term- Fund-based – Overdraft	10.00	0.00	-
Long-term- Fund-based – Cash Credit (Proposed)	20.00	0.00	-
Long-term- Fund-based – interchangeable	(15.00)	(120.00)^	[ICRA]A+ & reaffirmed; Rating continues to remain on watch with developing implications
Short-term- Fund based/Non-fund based - interchangeable	(35.00)	(150.00)#	[ICRA]A1+ & reaffirmed; Rating continues to remain on watch with developing implications
Short-term- Letter of Credit/Buyers Credit	30.00	0.00	-
Long-term/Short-term- Bank Guarantee	(5.00)	0.00	-
Long-term/Short-term- Fund based / Non-fund based	0.00	80.00	[ICRA]A+ & / [ICRA]A1+ & reaffirmed; Ratings continue to remain on watch with developing implications
Total	**60.00**	**80.00$**	

**Instrument details are provided in Annexure-1*
& Rating on watch with developing implications
$ Total sanctioned limits cannot exceed Rs. 80.00 crore
^ Long-term interchangeable limits include: CC of Rs. 30.00 crore, WCDL of Rs. 80.00 crore (including a one-time WCDL of Rs. 20.00 crore with 120 days' tenure) and OD of Rs. 10.00 crore
 # Short-term interchangeable limits include: EPC/PCFC of Rs. 10.00 crore, FBP/FBD/PSCFC of Rs. 10.00 crore, BG of Rs. 10.00 crore, LC of Rs. 60.00 crore and BC of Rs. 60.00 crore

Rationale

While arriving at the rating, ICRA has consolidated the operational and financial profiles of Borosil Glass Works Limited (BGWL) and its subsidiaries, given the common promoters and substantial financial linkages between them. The consolidated entities include BGWL, Borosil Limited (BL) (erstwhile Hopewell Tableware Private Limited), Gujarat Borosil Limited (GBL), Klasspack Limited (Klasspack), Borosil Afrasia FZE, Borosil Afrasia Middle East Trading LLC, Borosil Technologies Limited (BTL), Acalypha Realty Limited (ARL) and its associate company, Fennel Investments and Finance Private Limited.

The assigned rating continues to consider the established brand presence and the leading market position of BGWL in the domestic laboratory and scientific ware market, as well as its strong financial profile as reflected by healthy capitalisation and debt coverage indicators. ICRA notes BGWL's comfortable liquidity position supported by its healthy cash and liquid investments of ~Rs. 126.22 crore as on March 31, 2019 at a consolidated level; although the same reduced from ~Rs. 246.65 crore in the previous fiscal end due to funding support provided to its subsidiaries during the year to fund their capex plans. The rating also factors in BGWL's strong distribution network, its presence in diversified product categories and high entry barriers in the borosilicate glassware segment, where the company maintains its stronghold in the industry.

The rating is, however, constrained by the modest operating profitability in the consumer ware segment, low return on capital employed (RoCE), high working capital intensive nature of operations because of high inventory requirements, and substitution risks in the consumer ware segment. ICRA notes that in the past, to scale up its consumer ware and scientific ware segments, BGWL made a few acquisitions, wherein sizeable financial investments were made. The extent of total financial investments (including initial equity and funding support in the form of preference shares and loans/inter-corporate deposits) increased to ~Rs. 543.92 crore as on September 30, 2018 from Rs. 375.49 crore as of March 31, 2018 to fund the capex plans of its subsidiaries. Though these investments have largely been internally funded, generation of adequate returns from the same and any significant support other than those already planned will be a key rating monitorable.

The rating continues to remain under watch with developing implications, given the revised scheme of amalgamation by Borosil, which is pending approval from NCLT. ICRA will continue to monitor the development in this regard and analyse the potential impact of the scheme in terms of business and financial implications in the future.

Key rating drivers and their description

Credit strengths

Established brand and market leader status in the domestic laboratory and scientific ware market – Established in 1962, BGWL is a supplier of laboratory glassware and microwaveable kitchenware in India. The company has a strong brand presence in the domestic market due to its established track record and high-quality products that command a market share of ~65% in the laboratory and scientific ware segment.

Presence in diversified product categories - Following its acquisition of BL, BGWL now caters to all segments of the tableware industry including opalware, glass bakeware, melamine, etc. Additionally, it is the market leader in the supply of labware/scientific glassware, as well as the sole domestic manufacturer of the flat glass used by the solar power industry through its subsidiary, GBL.

Strong distribution network; established and diversified customer base - BGWL has a healthy network of about 200 distributors and 10,000 retailers across the country. It also engages in institutional and business-to-business (B2B) sales, which drive about 25% of its total sales. The customer concentration risk is low, with its top 10 customers accounting for 27% of total sales in FY2019. Moreover, it has an established customer base with several repeat customers owing to its established brand presence over the years.

High entry barriers in the borosilicate glassware industry - The borosilicate glassware industry has high entry barriers, especially in the laboratory and scientific ware segment, because of the requirement of high technical knowhow, skilled labour, high capital, capacity constraints and regulatory requirements that enable BGWL to maintain its stronghold in the industry.

Strong financial profile characterised by healthy capitalisation and debt coverage indicators– As of March 31, 2019, at a consolidated level, BGWL's capitalisation and debt coverage indicators continued to remain strong owing to healthy cash accruals, low reliance on external borrowings and a strong net worth position, as reflected by gearing of 0.12 time, interest coverage of 18.28 times, NCA/TD of 70% and TD/OPBDITA of 1.02 times.

Credit challenges

High working capital intensive nature of operations because of high inventory requirements - The operations of the company are working capital intensive owing to high inventory requirements. With over 1,500 types of products sold under the Borosil brand, the company has to maintain high levels of inventory at its warehouses to promptly service its customer requirements. Further, the inventory levels also remain high owing to the high lead time involved in importing borosilicate glass tubes. The inventory days at a consolidated level increased to 150 days as on March 31,2019 from 82 days in the previous fiscal end.

Low return on capital employed (RoCE) – BGWL's profitability for the consumer ware segment continues to be subdued, mainly due to high overheads related to sales and promotion. At a consolidated level, the company reported PBIT margins of 13.48% in FY2019, while that in the consumer ware segment stood at ~6.89%. Further, given the modest profitability in the consumerware segment and the sizeable capital trapped in non-revenue generating assets such as land, BGWL's return indicators at a consolidated level continue to remain modest as reflected by RoCE of 10.80% for FY2019.

Sizeable financial support extended to Group companies over the years – Apart from an initial equity investment, BGWL has provided periodic financial support to its Group companies for funding their capex plans, and supporting their working capital requirements. Over the last three years, it has also made a couple of acquisitions by making sizeable investments. BGWL's investments in Group companies in the form of equity shares, preference shares and loans/inter-corporate deposits, increased substantially in FY2019, because of its support to fund their capex plans. The same stood at Rs. 543.92 crore as on March 31, 2019 over Rs. 375.49 crore in the previous fiscal end. Though these advances provide synergy in terms of a diversified product portfolio at a Group level, generating commensurate returns from the same remains critical for improvement in RoCE.

Substitution risks from alternative products and exposure to high competition, especially in the consumer ware segment - Although borosilicate glass is superior for making consumer ware because of its favourable properties, it faces stiff competition from other substitutes like plastic, ceramic, bone China, thermo plastic, soda-ash glass ware, etc. BGWL remains exposed to competition from several unorganised players in the laboratory ware segment as well as from large players in the consumer ware segment.

Exposure to foreign currency fluctuation risk - With about 20% of BGWL's raw material is imported, primarily from China and the Czech Republic. Hence, the company faces foreign currency fluctuation risks.

Liquidity position: Strong

At a standalone level, BGWL did not have any term loans on its balance sheet as on March 31, 2019, and neither is it planning to avail any new term loans in the near term. At a consolidated level, the company had Rs. 32.61 crore of outstanding term loans, which included Rs. 6.64 crore in BL, Rs. 3.19 crore in Klasspack, and Rs. 22.78 crore in GBL. The long-term debt levels are likely to increase in the current fiscal, given that GBL is expected to draw down the remaining portion of the Rs. 85.00 crore sanctioned term loan limit and avail an additional term loan of Rs. 30.00 crore to fund the increase in its capex plan, while Klasspack is expected to avail Rs. 5.00 crore of new term loans to fund its capex plan. Given these, the company will have sizeable debt repayments (approximately Rs. 15-17 crore in next two fiscals) though the accruals expected at the consolidated level should be more than adequate to meet the same. BGWL's consolidated fund flows from operations continued to remain healthy and positive in FY2019, given its healthy profitability levels. However, its cash flows from operations and free cash flows turned negative because of increased working capital requirements to fund the higher inventory levels and sizeable capex incurred during the year, respectively. At a consolidated level, BGWL's cash and bank balances, as well as liquid investments declined to Rs. 126.22 crore as on March 31, 2019 from Rs. 246.65 crore in the previous fiscal end, given the increased financial support to its subsidiaries for funding their capex plans. Nevertheless, the same remained sizeable at an absolute level, which coupled with considerable unutilised bank lines, reflect the strong liquidity profile of the company.

Rating sensitivities

Positive triggers: ICRA could upgrade BGWL's rating if the company demonstrates sustained revenue growth while maintaining healthy profitability and debt coverage indicators. Other factors that may lead to a rating upgrade include improvement in its working capital cycle and maintenance of Total Debt/OPBDITA below 1.0 time on a sustained basis.

Negative triggers: Downward pressure on the rating could emerge if lower than expected cash accruals from significant decline in revenues and/or profitability, or the inability to generate commensurate returns from the ongoing capex, or any large unanticipated debt-funded capex weakens the overall financial profile. Any sizeable reduction in the liquidity available as cash and bank balance, and liquid investments, due to stretch in working capital could also trigger a lower rating. Additionally, the company's inability to maintain an interest coverage of above 6.0 times and Total Debt/OPBDITA of below 2.0 times on a sustained basis could also lead to a downward rating revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of the issuer

About the company

Established in 1962, in collaboration with Corning Glass Works, USA, BGWL manufactures laboratory glassware and microwavable kitchenware in India. In 1988, Corning divested its shareholding to the current Indian promoters. Currently, BGWL sells and markets microwavable and flameproof kitchenware and glass tumblers through more than 10,000 retail outlets. It runs a manufacturing facility in Bharuch, Gujarat, operated by Vyline Glass Works Limited, which is a third-party manufacturer. BGWL conducts its operations in three business segments—namely, scientific and industrial products (SIP), consumer products (CP), and flat glass.

In total, BGWL has seven subsidiaries—Borosil Afrasia FZE, Borosil Afrasia Middle East Trading LLC, BL, GBL, Klasspack, BTl and ARL. Borosil Afrasia FZE and Borosil Afrasia Middle East Trading LLC are the marketing wings of the Group in the West Asian and African markets. BL manufactures opal glass ware from its manufacturing facility in Rajasthan. Klasspack is a manufacturer and supplier of pharmaceutical vials and ampoules, with its manufacturing facility at Nashik, Maharashtra. GBL is a manufacturer of solar glass and has a manufacturing facility in Bharuch, Gujarat. BTL and ARL were dormant companies that were acquired in FY2019. While ARL continues to remain dormant, BTL commenced operations in FY2019 from Pune, Maharashtra. Its work includes designing, developing and assembling laboratory bench top equipment and instruments

In FY2019, at a consolidated level, BGWL reported a net profit of Rs 58.09 crore on an OI of Rs. 764.22 crore, as compared to a net profit of Rs. 47.74 crore on an OI of Rs 632.83 crore in the previous year.

Key financial indicators (Consolidated)

	FY2017 (Audited)	FY2018 (Audited)	FY2019 (Audited)
Operating Income (Rs. crore)	557.59	632.83	764.22
PAT (Rs. crore)	134.46[1]	47.74	58.09
OPBDIT/OI (%)	13.29%	14.61%	14.55%
RoCE (%)	20.31%	9.27%	10.80%
Total Outside Liabilities/Tangible Net Worth (times)	0.20	0.22	0.28
Total Debt/OPBDIT (times)	0.90	0.54	1.02
Interest Coverage (times)	9.54	13.55	18.28
DSCR (excluding short term debt / prepayments)	5.15	3.37	5.68

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[1] *Which included a one-time extraordinary gain of Rs. 90.88 crore from the sale of a plot of land in FY2017*

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated$	Amount Outstanding	Rating	FY2019		FY2018	FY2017
					04-Oct-2019	17-Dec-2018	26-Jun-2018	10-Aug-2017	
1	Fund-based–Overdraft	Long Term	0.00	-	-	[ICRA]A+&	[ICRA]A+&	[ICRA]A+ (Stable)	-
2	Fund-based–Cash Credit (Proposed)	Long Term	0.00	-	-	[ICRA]A+&	[ICRA]A+&	[ICRA]A+ (Stable)	-
3	Fund-based–interchangeable	Long Term	(120.00)^	-	[ICRA]A+&	[ICRA]A+&	[ICRA]A+&	[ICRA]A+ (Stable)	-
4	Fund based/Non-fund based - interchangeable	Short Term	(150.00)#	-	[ICRA]A1+&	[ICRA]A1+&	[ICRA]A1+&	[ICRA]A1+	-
5	Letter of Credit/Buyers Credit	Short Term	0.00	-	-	[ICRA]A1+&	[ICRA]A1+&	[ICRA]A1+	-
6	Bank Guarantee	Long-term/ Short-term-	0.00	-	-	[ICRA]A+& /[ICRA]A1+&	[ICRA]A+& /[ICRA]A1+&	[ICRA]A+ (Stable) /[ICRA]A1+	-
7	Fund based / Non-fund based	Long-term/ Short-term-	80.00	-	[ICRA]A+& /[ICRA]A1+&	-	-	-	-

Amount in Rs. crore
& Ratings on watch with developing implications
$ Total sanctioned limits cannot exceed Rs 80.00 crore
^ Long-term interchangeable limits include Rs 30.00 crore of CC, Rs 80.00 crore of WCDL (including a onetime WCDL of Rs 20.00 crore of 120 days tenure), Rs 10.00 crore of OD
 # Short-term interchangeable limits include EPC/PCFC of Rs 10.00 crore, FBP/FBD/PSCFC of Rs 10.00 crore, BG of Rs 10.00 crore, LC of Rs 60.00 crore, BC of Rs 60.00 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	Long-term- Fund-based – interchangeable	-	-	-	(120.00)	[ICRA]A+&
NA	Short-term- Fund based/Non-fund based - interchangeable	-	-	-	(150.00)	[ICRA]A1+&

NA	Long-term / Short-term-Fund-based /Non-fund-based	-	-	-	80.00	[ICRA]A+& /[ICRA]A1+&

Source: BGWL

& Ratings on watch with developing implications

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Borosil Limited (erstwhile Hopewell Tableware Private Limited)	100.00%	Full consolidation
Gujarat Borosil Limited	25.25%	Full consolidation
Klasspack Limited	79.52%	Full consolidation
Borosil Afrasia FZE	100.00%	Full consolidation
Borosil Afrasia Middle East Trading LLC	49.00%*	Full consolidation
Fennel Investments and Finance Private Limited	45.85%	Full consolidation
Borosil Technologies Limited	100.00%	Full consolidation
Acalypha Realty Limited	100.00%	Full consolidation

Note: Step down subsidiary with 49% stake held by Borosil Afrasia FZE*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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