October 07, 2019

Borosil Limited (erstwhile Hopewell Tableware Private Limited): Rating reaffirmed and rated amount reduced; continues on watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund based – Term loans	10.80	0.00	-
Long-term: Fund based – Cash Credit	25.00	25.00	[ICRA]BB &; Reaffirmed, Continues on watch with developing implications
Short-term: Non fund based limits	5.00	0.00	-
Long-term: Unallocated limits	9.20	0.00	-
Long-term/Short-term: Unallocated limits	0.00	5.00	[ICRA]BB & / [ICRA]A4+ &; Reaffirmed, Continues on watch with developing implications
Total	**50.00**	**30.00**	

**Instrument Details are provided in Annexure-1*

Rationale

The reaffirmation of the rating continues to factor in the strong parentage of Borosil Limited (BL) with sizeable and timely financial support by its parent, Borosil Glass Works Limited (BGWL) (rated [ICRA]A+ &[1] / [ICRA]A1+ &), benefits arising from the established brand name and distribution network of BGWL, and cost optimization and quality improvement initiatives undertaken by the management that have resulted in improved operating profitability over last two fiscals, due to improvement in operational efficiency. The rating also continues to be under watch with developing implications on account of the proposed amalgamation of BGWL with BL which is currently pending approval from National Company Law Tribunal (NCLT).

The rating, however, continues to remain constrained by BL's modest financial profile as reflected by continued losses at net level, stretched capital structure, and muted coverage indicators. The rating also factors in the working capital-intensive nature of operations on account of high inventory requirements and long receivables; and exposure to substitution risk from other types of tableware, although the risk is partly mitigated by superior quality and cost competitiveness of opalware.

The rating continues to remain under watch with developing implications given the revised scheme of amalgamation by BGWL which is pending approval from NCLT. ICRA shall continue to monitor the developments in this regard and analyse potential impact of the scheme in terms of the business and financial implications which may arise.

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[1] *& - Rating watch with developing implications*

Key rating drivers and their description

Credit strengths

Strong parentage of BL; sizeable and timely financial support by its parent, BGWL - Established in 1962, BGWL is a reputed laboratory glassware and microwaveable kitchenware brand in India, with a strong brand presence in the domestic market due to its established track record and high product quality. BGWL continues to provide significant financial support to BL in terms of preference shares and inter-corporate deposits, which have been utilized for various purposes. Till March 31, 2019, BGWL has provided a financial support of Rs. 179.07 crore to BL and is expected to support BL on a need-basis.

Improvement in operational efficiency leading to improvement in profitability margins – Over the last two fiscals, BL has undertaken various measures in production processes to improve the production capacity, quality and yield. It has automated various processes and has reduced the number of breakages in the production area. All these measures have enabled the company to improve its operating profitability to 6.71% in FY2018 and further to 17.61% in FY2019, compared to operating loss of 0.54% in FY2017.

Benefits arising out of established brand and distribution network of BGWL – Over the years, BL undertook significant marketing campaign to market its brand, 'Larah- by Borosil', which was supported by BGWL. The distributors of BGWL also undertake sales of BL's products and the warehouses of BGWL help BL improve its supply chain efficiency. At present BGWL has a healthy network of about 200 distributors and 10,000 retailers across the country.

Credit challenges

Modest financial profile as reflected by continued net losses, stretched capital structure and muted coverage indicators - Although BL managed to scale up its revenues in FY2019 by ~45% over previous fiscal, its net profit margin continued to remain weak as reflected by losses of Rs. 3.28 crore due to high selling expenses and depreciation and interest costs incurred during the year. The company undertook a capex of ~Rs. 76 crore over last two fiscals, funded by intercorporate deposits from BGWL, whereas its working capital requirement continued to remain high, resulting in high debt levels. Coupled with lower net worth due to lower cash accruals and losses from the business in the last two fiscals, the capital structure has remained stretched. The net-worth of the company remained negative as on March 31, 2019 owing to which the debt coverage indicators have also remained muted in FY2019 as reflected by Interest cover of 1.98 times in FY2019 (P.Y.[2] – 1.02 times), TD/OPBDITA of 6.83 times (P.Y. - 22.30 times) and NCA/Total debt at 8% (P.Y. - 0%) as on March 31, 2019.

High working capital intensive nature of operations - The operations of the company are working capital intensive in nature as reflected by high NWC/OI of 32% as on March 31, 2019 (27% as on March 31, 2018) because of high inventory holding requirements.

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[2] *Previous year*

Substitution risks from alternate products - The tableware segment comprises a number of other products like melamine, porcelain, bone china, etc., which offer a sizeable competition to opalware and can act as direct substitutes. However, the risk is partly mitigated by superior quality and cost competitiveness of opalware compared to other available substitutes.

Liquidity Position: Adequate

BL does not have any external term loan on its books and hence does not have any repayment obligations over the near-to-medium term. Further it receives timely financial support from its parent, BGWL, which strengthens its liquidity position. The working capital utilization has remained high, with average fund based utilization of 89% over September 2018 to August 2019. The fund flow from operations have improved with improvement in profitability.

Rating sensitivities

Positive triggers: BL's ability to strengthen its networth position leading to improvement in leverage levels and maintain Interest cover above 2.50 times on sustained basis shall trigger an upgrade in ratings.

Negative triggers: Negative pressure on BL's rating could arise if there is lack of timely support from BGWL. The company's inability to maintain interest coverage above 2.0 times on sustained basis shall trigger a downward revision in ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	ICRA has taken comfort from the financial support extended by the parent company, BGWL, which owns 100% stake in BL.
Consolidation/Standalone	Ratings are based on standalone financial statements of the issuer.

About the company

Established in 2010, Borosil Limited ('BL' or 'the company'; formerly Hopewell Tableware Private Limited) was promoted by Mr. Swapan Guha (a technocrat and Padma Shri awardee) along with Mr. Premsingh Shekhawat (founder and chairman of the Bajore Group of companies) and others. The company initially started with manufacturing melamine in FY2012. Later it entered into the opalware segment and set up its opal glass manufacturing facility due to greater opportunities in the business. Melamine production was suspended and only opal glass manufactured from FY2014. In January 2016, the earlier promoters exited the company and the entire stake was acquired by Borosil Glass Works Limited (BGWL). The name of the company was changed to 'Borosil Limited' in November 2018. BL's manufacturing unit is located in Rajasthan and is equipped with a furnace capacity of 50 metric tonnes per day (MTPD), two spinning lines and a pressing line.

As per provisional estimates, BL reported net loss (PAT) of Rs. 3.28 crore on an operating income of Rs. 147.30 crore in FY2019 compared to net loss of Rs. 6.78 crore on an operating income of Rs. 101.57 crore in FY2018.

Key financial indicators (audited)

	FY2017	FY2018	FY2019 (Provisional)
Operating Income (Rs. crore)	86.96	101.57	147.30
PAT (Rs. crore)	-11.59	-6.78	-3.28
OPBDIT/ OI (%)	-0.54%	6.71%	17.61%
RoCE (%)	-11.08%	-1.00%	6.59%
Total Outside Liabilities/Tangible Net Worth (times)	-11.76	-10.69	-10.01
Total Debt/ OPBDIT (times)	-208.34	22.30	6.83
Interest Coverage (times)	-0.07	1.02	1.98
DSCR	0.05	0.52	1.29

Status of non-cooperation with previous CRA: None

Any other information: None

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
					07-Oct-2019	18-Dec-2018	26-Jun-2018	14-Aug-2017	19-Aug-2016
1	Cash Credit	Long term	25.00	NA	[ICRA]BB &; Rating watch with developing implications	[ICRA]BB &; Rating watch with developing implications	[ICRA]BB &; Rating watch with developing implications	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	Term Loan	Short term	-	-	-	[ICRA]BB &; Rating watch with developing implications	[ICRA]BB &; Rating watch with developing implications	[ICRA]BB (Stable)	[ICRA] BB (Stable)
3	Letter of Credit	Short term	-	-	-	[ICRA]A4+ &; Rating watch with developing implications	[ICRA]A4+ &; Rating watch with developing implications	[ICRA]A4+	[ICRA]A4+
4	Unallocated limits	Long term	-	-	-	[ICRA]BB &; Rating watch with developing implications	[ICRA]BB &; Rating watch with developing implications	[ICRA]BB (Stable)	[ICRA]BB (Stable)
5	Unallocated limits	Long term / Short term	5.00	NA	[ICRA]BB & / [ICRA]A4+ &; Rating watch with developing implications	-	-	-	-

Amount in Rs. Crore; NA – not applicable

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	25.00	[ICRA]BB &; Rating watch with developing implications
NA	Unallocated limits	-	-	-	5.00	[ICRA]BB & / [ICRA]A4+ &; Rating watch with developing implications

Source: BL

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

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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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