April 17, 2020

Hindustan Tin Works Limited: Ratings downgraded to [ICRA]BBB+(Negative)/ [ICRA]A2

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

The rating action and outlook factor in Hindustan Tin Works Limited's (HTWL) lower-than-anticipated performance in FY2020 (as already demonstrated by the decline in revenues in 9M FY2020) because of subdued economic activity and expectation of weak demand prospects due to the unprecedented nationwide lockdown amid novel coronavirus (Covid-19) pandemic. This extended lockdown has worsened the already subdued end-user demand, both in the domestic and export markets, limiting profitability and growth for HTWL in the current fiscal. Moreover, it is likely to exert pressure on the company's cash flow generation, liquidity profile and return indicators, which have already moderated in the recent years due to limited growth, despite sizeable capex towards capacity enhancement/upgradation. The risk is further exacerbated by debt repayment obligations and sizeable committed payments (against letter of credit) due in the near term. Additionally, the ratings continue to factor in 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), and 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.

Notwithstanding these concerns, the ratings continue to draw comfort from HTWL's position as one of the major players in the tin can manufacturing industry, supported by its long track record of operations and wide product mix. Given its location-specific 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, enabling HTWL to sustain its scale of operations over the years. Moreover, the presence in exports continues to diversify the revenue stream.

Key rating drivers and their description

Credit strengths

Position among major 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 location-specific 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.

Credit challenges

Moderation in revenues and return indicators: – HTWL's revenues declined in 9M FY2020 (Rs. 238 crore against Rs. 260 crore in 9M FY2019) due to lower demand amid subdued economic activity, both in the domestic and export markets. The top line is likely to witness further moderation due to the unprecedented nationwide lockdown. Moreover, the already subdued end-user demand is expected to worsen further, resulting in profitability and growth challenges for HTWL in the current fiscal. ICRA expects an extended lockdown to exert pressure on the company's cash flow generation, liquidity profile and its return indicators, which have already moderated in the recent years due to limited growth, despite sizeable capex towards capacity enhancement/upgradation. HTWL's total debt/market capitilisation ratio has also witnessed considerable deterioration over the past year.

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 tinplate trading business. This has continued to result in high reliance on external debt, which is expected to continue. The funding requirements of the business have increased further in light of the build-up of receivables due to the ongoing lockdown.

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 raw material price volatility and foreign exchange risk – HTWL's profit margins remain moderate due to exposure to volatility in raw material prices and relatively high proportion of tinplate trading revenues in the total revenue. Also, as exports constitute around 20-25% of the turnover, the company is exposed to adverse movement in foreign exchange rate. However, it has sizeable imports that create a natural hedge, and it has a selective hedging mechanism for the balance exposure.

Liquidity Position: Stretched

HTWL's liquidity position is **stretched**, given the build-up of receivable levels in light of the disruption in operations due to the ongoing lockdown related to Covid-19 pandemic. An extended lockdown may adversely impact the company's operations, leading to significant decline in its cash flows from operations and further pressure on its liquidity position. Debt repayment obligations apart, the company has sizeable committed payments (against letter of credit) due in the near term. Thus, its ability to fund the same will be key to tide over the near-term liquidity constraints. The same shall remain key monitorable for the ratings.

Rating sensitivities

Positive triggers – Given the Negative outlook, a rating upgrade over the near term is less likely. However, the outlook may be revised to Stable if there is no material adverse impact of the ongoing Covid-19 related lockdown on HTWL's operations and it is able to register good recovery in cash flow generation and in turn, improvement in liquidity profile.

Negative triggers – HTWL's ratings could be downgraded if the ongoing lockdown is prolonged, thus adversely impacting the company's cash flow generation, coverage metrics and exerting further pressure on its liquidity profile.

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 (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating 17- Apr-2020	FY2020 19- Sep-2019	FY2019 10-Sep-2018	FY2018 28-Aug-2017
1	Term loan	Long Term	37.44	37.44	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (stable)
2	Fund based working capital limits	Long Term	99.0	-	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[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]BBB+ (Negative)	[ICRA]A- (Negative)	[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]BBB+(Negative)
NA	Fund based working capital limits	NA	-	-	99.0	[ICRA]BBB+(Negative)
NA	Non-fund-based limits – LC/BG	NA	-	-	55.0	[ICRA]A2
NA	Unallocated	NA	-	-	43.56	[ICRA]BBB+(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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