December 05, 2024

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loan	74.57	72.30	[ICRA]BBB+ (Stable); Outlook revised to Stable from Positive
Long-term – Fund-based working capital limits	103.77	71.00	[ICRA]BBB+ (Stable); Outlook revised to Stable from Positive
Short-term Non-fund-based limits – LC/BG	50.20	50.20	[ICRA]A2; reaffirmed
Long-term – Unallocated	31.66	66.70	[ICRA]BBB+ (Stable); Outlook revised to Stable from Positive
Short-term – Unallocated	9.80	9.80	[ICRA]A2; reaffirmed
Total	**270.00**	**270.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook to Stable from Positive on the long-term rating of Hindustan Tin Works Ltd (HTWL) factors in the lower-than-anticipated growth in earnings and higher debt levels in FY2025, resulting in some moderation in the company's debt protection metrics. HTWL reported a YoY revenue decline of 9% in FY2024 primarily due to discontinuation of trading sales and lower average realisations, which was largely in line with ICRA's projections. However, manufacturing sales also fell by ~4% in H1 FY2025, which coupled with some moderation in the operating margins due to product mix and lower growth in exports resulted in lower internal accrual generation and moderation in debt protection metrics in H1 FY2025. The company is also in the process of completing its sizeable ongoing capex for setting up a new manufacturing facility, which led to some increase in reliance on debt. While the new facility is expected to support future growth and earnings, HTWL's ability to ramp up operations in a timely manner will remain a key monitorable. Additionally, the ratings reaffirmation factors in HTWL's established track record and position as one of the leading players in the tin can manufacturing industry, supported by its wide product mix, and its reputed clientele.

The ratings are, however, constrained by the high working capital intensity of business and limited pricing flexibility owing to intense competition and vulnerability to volatile raw material prices and foreign exchange (forex) rate fluctuations. The same has also been demonstrated by some volatility in operating margins in the recent quarters. Further, the company continues to face competition from substitutes such as flexible forms of packaging, though the same is mitigated to an extent by the advantages of using tin cans for specific edibles.

Key rating drivers and their description

Credit strengths

Established track record as a major player in the 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.

Investment in new unit augurs well for export prospects; ongoing capex expected to improve credit metrics – HTWL is undertaking substantial capex of Rs. 45-50 crore, which is being partly funded by debt. The same is expected to debottleneck the existing capacities and further streamline production capabilities, especially for the export segment. The major portion of the project cost has been incurred and the project is expected to be commissioned by the end of FY2025. A healthy ramp-up of operations from this unit would enable the company to witness an improvement in its business and credit metrics, and would remain key rating monitorable.

Stable business profile with wide customer base of reputed clientele – The company has a stable business profile while operating in an industry, which is largely insulated from economic downturns. Over the years, HTWL has developed a wide customer base, which includes reputed corporates such as Dharampal Satyapal Ltd., Nestle India Limited, Asian Paints Limited and Haldiram Snacks Private Limited. The company is one of the key vendors for some products of these clients. HTWL's established relationships with its customers have resulted in repeat business. Its top five customers continued to account for ~3% of its revenues in FY2024.

Credit challenges

High working capital intensity, given long receivables period and high stocking requirements – The company operates in a working capital-intensive business due to high inventory and debtor levels, along with considerable outstanding debtors of greater than six months (primarily for the tinplate trading business). ICRA has noted the decline in the old outstanding debtors in the current fiscal and expects further reduction as trading activity has almost been discontinued by the company. HTWL's inventory levels have also remained high, given the transit time related with sourcing of raw materials and inventory levels required to be maintained as per the manufacturing requirements.

Exposure to raw material price volatility and forex risk, although with ability to pass on high prices – HTWL's profit margins largely remain exposed to volatility in raw material prices, though it manages to pass on large variations with a lag. The margins also fluctuate with the share of tin plate trading revenues in the total revenue pie, which is being downsized progressively. The company's earnings have moderated in the current fiscal against earlier expectations partly due to product mix and lower-than-expected ramp-up of exports. Also, with exports constituting ~24% of its turnover in FY2024, the company is exposed to adverse movements in forex rates. However, the risk is mitigated to an extent due to a natural hedge as well as partial hedging policy adopted by the company.

Competition from other packaging substitutes – The competitive and fragmented nature of the industry and substitution risk from alternative packaging materials, such as plastic and tetra packs, limit the pricing flexibility of industry participants, including HTWL. However, tin has advantages for specific food packaging with less probability of contamination and a longer shelf life as well.

Environmental and Social Risks

Environmental considerations: HTWL is one of the biggest players involved in manufacturing of cans and other tin-based packaging solutions. Tin cans help towards providing an alternative to plastic products, which are more hazardous to the environment. Tin cans have higher recyclability compared to composite plastic/polymers.

Social considerations: HTWL is exposed to social risks, including shifts in consumer preference for another packaging alternative. Further, HTWL faces high dependence on human capital. Retaining human capital, maintaining healthy relationships with employees and a safe work environment remain essential for disruption-free operations.

Liquidity position: Adequate

HTWL's liquidity position is adequate due to a healthy cushion in working capital limits of ~Rs. 40 crore as of October 2024 and modest free cash levels. It has debt repayments of Rs. 11-12 crore per annum over FY2025 and FY2026, which are expected to be adequately met through internal accruals. HTWL is expected to complete its significant ongoing capex in FY2025, and no sizeable capex is envisaged in FY2026.

Rating sensitivities

Positive factors – HTWL's ratings could be upgraded if the company demonstrates a consistent growth in its profits and cash accruals, along with efficient management of working capital. Total Debt/OPBIDTA of lower than 2.5 times on a sustained basis may result in ratings upgrade.

Negative factors – The outlook could be revised if there is a material decline in its revenues and profitability, which along with elongation in the working capital cycle exerts pressure on its liquidity position. Moreover, deterioration in its coverage metrics may trigger ratings downgrade.

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, HTWL is a public limited company involved in manufacturing tin cans and trading tin plates. Mr. Sanjay Bhatia, Managing Director, and a part of the promoter family, entered the business in 1977 and has more than three decades of experience. HTWL is among the largest players in the tin can industry in India with expertise in round, irregular tin cans, especially open top sanitary cans or food cans. The company's manufacturing facility is in Murthal, Haryana. The company is also setting up an export focused unit at Sonipat, Haryana.

Key financial indicators (audited)

HTWL – Standalone	FY2023	FY2024	H1 FY2025*
Operating income	466.8	426.3	216.6
PAT	16.5	17.0	5.8
OPBDITA/OI	7.2%	8.4%	6.0%
PAT/OI	3.5%	4.0%	2.7%
Total outside liabilities/Tangible net worth (times)	0.5	0.5	0.6
Total debt/OPBDITA (times)	2.2	2.3	2.9
Interest coverage (times)	4.3	4.8	3.6

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*unaudited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				Dec 05, 2024	Mar 07, 2024	FEB 28, 2023	Nov 03, 2021	Oct 14, 2021
1	**Term loans**	Long term	72.30	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	**Working capital limits**	Long term	71.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	**LC/BG**	Short term	50.20	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	**Unallocated**	Long term	66.70	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
5	**Unallocated**	Short term	9.80	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based/Term loan	Simple
Fund-based/Working capital limits	Simple
Non-fund Based-LC/BG	Very Simple
Long-term/Unallocated	NA
Short-term/Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based/Working capital limits**	NA	NA	NA	71.00	[ICRA]BBB+(Stable)
NA	**Fund-based/Term loan**	2015	5-10%	2028	72.30	[ICRA]BBB+(Stable)
NA	**Long Term-Unallocated**	NA	NA	NA	66.70	[ICRA]BBB+(Stable)
NA	**Short-term/Unallocated**	NA	NA	NA	9.80	[ICRA]A2
NA	**Non-fund Based-LC/BG**	NA	NA	NA	50.20	[ICRA]A2

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis- Not Applicable

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About ICRA Limited:

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