July 9, 2021 Revised

HIL Limited: Long-term rating upgraded to [ICRA]AA(Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term unallocated limits	250.00	250.00	[ICRA]AA (Stable); upgraded from [ICRA]AA- (Stable) [ICRA]A1+; reaffirmed
Commercial paper	75.00	0.00	[ICRA]A1+; reaffirmed and withdrawn
Total	**325.00**	**250.00**	

**Instrument details are provided in Annexure-1*

Rationale

The long-term rating upgrade factors in the significant improvement in HIL's financial risk profile, reflected in the improved debt coverage metrics in FY2021. The debt coverage metrics witnessed an improvement, with interest cover at 14.7x (PY: 6.2x) and Net Debt/OPBDITA at 0.6x (PY:2.7x), driven by a 57% decline in net debt to Rs. 272.5 crore as on March 31, 2021 and an improvement in the operating margins by 410 bps to 13.4% in FY2021. In FY2021, HIL posted a 19% growth in the operating income (OI), aided by strong growth in roofing, polymer and flooring segment. The improvement in the operating margin is driven by an increase in margins in the roofing segment (supported by an increase in the sales realisations) and better absorption of fixed overheads in flooring segment with rise in scale, change in product mix and cost-saving initiatives undertaken by the company. The healthy growth in OI along with an improvement in margins boosted the internal cash generation, which was used to prepay long-term debt. Notwithstanding the second wave of Covid, the company is estimated to witness strong sales growth in the roofing segment in Q1FY2022, owing to the increased focus on last mile connectivity, changes in marketing from distributor push model to consumer pull model, direct retail consumers reach, heat-mapping of Covid zones, alignment of sales depots, distributor, sub-dealers pan India wise on pin-code basis and digital initiatives. Further, HIL has also undertaken price hikes in the roofing segment to pass on the impact of increase in raw material prices. With focus on cost control, strong pricing power and prudent working capital management, HIL is expected to sustain its healthy financial performance going forward. The rating also factors in HIL's business diversification; the company operates in four major segments, namely roofing, building, polymer and flooring solutions. With the acquisition of Parador Holdings GmbH (Parador), in September 2018, HIL's geographical diversification has improved, helping it to insulate the top line from the impact of the slowdown in any specific geography. Overseas sales accounted for 49% of HIL's revenues in FY2021, when compared to nil in FY2018. The ratings continue to factor in the extensive experience of the management team, the strong operational profile, the large distribution network and the dominant market position in the domestic fibre cement (FC) sheet industry.

The ratings, however, are constrained by the vulnerability of HIL's revenues and margins to the regulatory risks associated with threat of ban on use or manufacture of asbestos-related products as well as on the mining of asbestos in asbestos producing countries. While ICRA notes that the management has been putting in conscious efforts to de-risk the business risk profile as reflected in the decline in the revenue share of asbestos to 30% in FY2021 from 71% in FY2018, the PBT share of asbestos-linked business remains significant at 62%. However, with increasing diversification towards non-asbestos based products, the risk is expected to moderate over the medium to long term for HIL. The ratings continue to remain constrained by the vulnerability of demand to cyclicality in end-user industries; vulnerability of margins to sharp fluctuations in raw material prices and exchange rates; and the intense industry competition.

The Stable outlook on the [ICRA]AA rating reflects ICRA's opinion that HIL's credit profile will be supported by its strong market position in the domestic FC sheet market, the enhanced performance in building products and polymer segments, and the stable growth in Parador's business.

The rating assigned to Rs. 75.00 crore of commercial has been reaffirmed and withdrawn in accordance with ICRA's policy on withdrawal and suspension at the request of the company as there is no amount outstanding against the CP Programme.

Key rating drivers and their description

Credit strengths

Leading market position in fibre cement (FC) roofing segment – HIL is a dominant player in the domestic asbestos FC roofing segment with an estimated market share of ~21%. The company has pan-India manufacturing presence, wide distribution and dealership network, and strong brand recall for Charminar and Birla Aerocon. Backed by quality, solution-based approach, focussed branding efforts and strong distribution network, the company's products enjoy premium pricing over competing products. HIL has a non-asbestos roofing product, Charminar Fortune, and is currently targeted at institutional customers.

Diversified business and geographical mix – HIL's business profile is diversified with operations in four segments, namely, roofing, building, polymer and flooring solutions. With the acquisition of Parador Holdings GmbH (Parador), in September 2018, HIL's geographical diversification improved; this helps insulate the top line from impact of slowdown in any specific geography. Overseas sales accounted for 49% of HIL's revenues in FY2021 when compared to nil in FY2018.

Significant improvement in the financial risk profile as witnessed by improved debt coverage metrics in FY2021; financial risk profile to remain healthy in FY2022 – In FY2021, HIL posted a 19% growth in revenues at the consolidated level aided by strong growth in roofing, polymer and flooring segment. The operating margins for the company improved by 410 bps to 13.4% in FY2021 driven by increase in margins in the roofing segment - supported by increase in the sales realisations; and flooring segment due to higher sales resulting in better absorption of fixed overheads, change in product mix, negotiation for raw material cost of high density fibreboard (HDF) in H1 FY2021 and cost-saving initiatives undertaken by the company. The healthy growth in OI along with improvement in margins resulted in increase in internal generation which was used to prepay long term debt to the tune of Rs. 45-50 crore. Consequently, the capital structure and debt coverage metrics improved as reflected in gearing, interest cover and Net Debt/OPBDITA of 0.4x, 14.7x and 0.6x, respectively, in FY2021 (against 1.0x, 6.2x and 2.7x, respectively in FY2020). Notwithstanding the second wave of Covid; the company is estimated to witness strong growth in sales in roofing segment in Q1 FY2022 owing to increased focus on last mile connectivity, change in marketing from distributor push model to consumer pull model, reaching retail consumers directly, heat-mapping of Covid zones, alignment of sales depots, distributor, sub-dealers pan India wise on pin-code basis and digital initiatives. Further, HIL has also undertaken price hikes in the roofing segment to pass on the impact of increase in raw material prices. With focus on cost control, strong pricing power and prudent working capital management, HIL is expected to sustain its healthy financial performance going forward.

Credit challenges

Exposure to regulatory risks associated with threat of ban on use or manufacture of asbestos-related products – HIL's revenues and margins are vulnerable to the regulatory risks associated with threat of ban on use or manufacture of asbestos-related products as well as on the mining of asbestos in asbestos producing countries. While ICRA notes that the management has been putting in conscious efforts to de-risking the business risk profile as reflected in the decline in the revenue share of asbestos to 30% in FY2021 from 71% in FY2018, the PBT share of asbestos-linked business still remains significant at 62%. However, with increasing diversification towards non-asbestos based products, the risk is expected to moderate over the medium to long term for HIL.

Vulnerability of demand to cyclicality in end-user industries – The demand for FC sheets is vulnerable to the cyclicality in end-user industries. Demand for asbestos FC sheets primarily comes from rural and semi-urban regions. The fortune of domestic business is highly reliant on monsoons with Q1, setting the tone for the full year, the FC sheet sales are susceptible to volatility in monsoon trends. Despite second wave of covid-19 pandemic, higher MSP for kharif crop, increased procurement by Government agencies, improved food grain production in rabi harvest and the IMD forecast for a third consecutive normal monsoon is expected to support demand in FY2022.

Vulnerability of earnings to fluctuations in raw material prices, competition and exchange rates – HIL's margins are susceptible to variations in input prices, particularly asbestos fibre and cement. Nonetheless, the shift in fibre sourcing from Russia and Kazakhstan to Brazil in FY2021, with which HIL has long-term contractual arrangements (both price and volume), helps mitigate the risk. Players also face stiff competition from manufacturers of galvanised iron roofing sheets as these are easily transportable and accessible. This is compounded by limited ability to pass on input price increases to end users because of intense competition. The company's exports are minimal, while imports accounted for approximately 11% of the standalone revenues in FY2021, exposing the company's earnings to fluctuations in foreign currency. The risk, however, is mitigated by the prudent hedging policy adopted by the management to keep unhedged foreign exchange exposure at a comfortable level (70%-90% of the imports are hedged).

Liquidity position: Strong

HIL's liquidity position is strong, with cash and bank balance of Rs. 158.4 crore as of March 31, 2021 and significant buffer in the fund-based working capital limits, as reflected by the low average fund-based utilisation of ~26% of sanctioned limits and 34% of drawing power for the 12-month period ending in April 2021 at a standalone level. Steadily improving accruals, moderate capex plans of Rs. 120 crore for FY2022 and focus on improving working capital intensity are likely to keep the liquidity strong going forward as well. Moreover, HIL enjoys strong financial flexibility with lenders, resulting in an ability to raise debt at a short notice.

Rating sensitivities

Positive factors – ICRA may upgrade the rating if there is sustained increase in revenues and earnings share from the non-asbestos segments. Specific credit metrics that could result in a rating upgrade include RoCE of more than 25% and Net debt to EBITDA decreasing below 0.5x on a sustained basis.

Negative factors – Negative pressure on HIL's ratings may arise if there is a significant decline in earnings or a significant debt-funded capex or acquisition weakens the debt coverage metrics on a sustained basis. Specific credit metric will include Net debt to EBITDA increasing beyond 1.2x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA Policy on Withdrawal of Credit Ratings
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidated; please refer Annexure 2 for the list of entities considered for consolidated analysis

About the company

HIL Limited (HIL) is a part of the C.K. Birla Group and is headquartered in Hyderabad. The company manufactures asbestos FC sheets, coloured steel sheets, non-asbestos corrugated roofing sheets, new generation building products such as autoclaved aerated concrete (AAC) blocks (light bricks) that are used for walls in building constructions, and aerocon panels and boards that are used as partition in residential and commercial buildings. The asbestos FC sheets are sold under the brandname 'Charminar', non-asbestos cement roofing sheets under 'Charminar Fortune' and building products under 'Birla Aerocon'. HIL also manufactures advanced polymer products (APP) needed for producing chlorinated poly vinyl chloride (CPVC) and unplasticised PVC (UPVC) pipes, soil, water and rain (SWR) pipes and putty. In September 2018, it completed the acquisition of a Germany-based flooring company Parador.

HIL has 22 manufacturing facilities spread across the country and two manufacturing sites overseas (Austria and Germany) with a wide distribution network of 40 sales depots and three sales offices. It has a network of 2,500 distributors and its dealership network consists of 6,500 sub-dealers. Apart from these, the company has four wind power units aggregating to a capacity of 9.35 MW in Gujarat, Rajasthan and Tamil Nadu. The business is classified into four segments—flooring solutions (49% of OI in FY2021), roofing solutions (29%), polymer solutions (13%) and building solutions (9%).

Key financial indicators (audited)

HIL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	2,554.9	3,043.6
PAT (Rs. crore)	97.3	259.7
OPBDIT/OI (%)	9.3%	13.4%
PAT/OI (%)	3.8%	8.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	1.1
Total Debt/OPBDIT (times)	3.1	1.1
Interest Coverage (times)	6.2	14.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 21, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019		
					Jul 9, 2021	Nov 26, 2020	Mar 27, 2020	Dec 13, 2019	Nov 23, 2018	Jul 17, 2018	Jun 14, 2018
1	Unallocated limits	Long-term and short term	250.00	--	**[ICRA]AA (Stable) / [ICRA]A1+**	**[ICRA]AA- (Stable) / [ICRA]A1+**	**[ICRA]AA- (Stable) / [ICRA]A1+**	**[ICRA]AA- (Stable) / [ICRA]A1+**	-	-	-
2	Commercial paper	Short-term	00.00	--	**[ICRA]A1+; withdrawn**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+ &**	**[ICRA]A1+**
3	Unallocated	Long-term	109.00	--	-	-	-	-	**[ICRA]AA- (Stable)**	**[ICRA]AA- &**	**[ICRA]AA- (Stable)**
4	Unallocated	Short-term	10.00	--	-	-	-	-	**[ICRA]A1+**	**[ICRA]A1+ &**	**[ICRA]A1+**

&= Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term unallocated limits	-
Commercial paper	Very simple

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 analyzing 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, is available on ICRA's website: Click Here

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/Short-term unallocated limits	NA	NA	NA	250.00	[ICRA]AA (Stable) / [ICRA]A1+
NA	Commercial paper*	NA	NA	NA	75.00	[ICRA]A1+; withdrawn

Source: *Company; *unplaced*

Annexure-2: List of entities considered for consolidated analysis

Company Name	HIL Ownership	Consolidation Approach
HIL Limited	100.00% (rated entity)	Full Consolidation
HIL International GmBH	100.00%	Full Consolidation
Parador Holdings GmBH	100.00%	Full Consolidation
Parador GmBH	100.00%	Full Consolidation
Parador Parkettwerke GmBH	100.00%	Full Consolidation
Parador (Shangai) Trading Co Ltd	50.00%	Equity Method

Source: *HIL Limited*

Note: *ICRA has considered the consolidated financials of HIL Limited, its subsidiaries and associates while assigning the ratings.*

Corrigendum

Rationale dated July 9, 2021 has been revised with changes as below:

ICRA Policy on Withdrawal of Credit Ratings has been added under Applicable Rating Methodologies as rating was withdrawn for commercial paper

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