

February 27, 2025

Hafele India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term/short term – Fund based/ Non-fund based	322.0	322.0	[ICRA]AA- (Stable) /[ICRA]A1+; reaffirmed
Total	322.0	322.0	

*Instrument details are provided in Annexure I

Rationale

The ratings reaffirmation factors in the established position of Hafele India Private Limited's (HIPL) German promoter group, Hafele Holding GmbH (HHG), as well as its strong global brand presence in the premium architectural hardware and kitchen/furniture fittings industry. The ratings also draw comfort from the professional management as well as the operational expertise and financial flexibility enjoyed by HIPL from its strong parentage. The ratings favourably factor in HIPL's established and growing distribution network of dealers and exclusive franchisees. The financial profile of the company remains comfortable, marked by a low gearing, healthy debt coverage indicators and a strong liquidity position.

HIPL reported a modest 3% YoY growth in revenues in CY2024 owing to slowdown in private consumption. While the gross margins remained healthy, increased employee, IT and marketing investments impacted the operating profit margin (OPM). HIPL's spends towards marketing initiatives, building of employee capabilities and strengthening of IT systems are expected to continue as the company plans to expand its presence. Moreover, there is a need to continuously invest in marketing initiatives for customer acquisition and retention due to stiff competition in the industry. While these would exert pressure on the OPM in CY2025, the same are expected to improve, going forward, as the revenues ramp up, led by the benefits of these investments.

The ratings also remained constrained by the working capital intensive nature of the business, driven by high inventory requirements. Most of HIPL's products are imported, which exposes the company to forex rate fluctuation risk, although the same is mitigated by hedging through forward contracts. Further, the gross margin remains vulnerable to depreciation of the rupee, though it attempts to pass it on to the customers through periodic price increases. ICRA also notes that the Hafele Group is evaluating setting up manufacturing unit in India to increase domestic procurement. The Group is yet to finalise whether the same will be undertaken in HIPL. The quantum of investment towards this as well as the mode of funding, in case the same is undertaken by HIPL, will be monitored.

The Stable outlook reflects ICRA's expectation that HIPL will steadily increase its revenues, along with a gradual improvement in OPM, driven by growing demand for premium architectural hardware. Besides its controlled working capital cycle, this will lead to satisfactory credit metrics.

Key rating drivers and their description

Credit strengths

Strong brand presence in premium architectural hardware and furniture fittings; operational expertise from strong parentage – HIPL is a wholly-owned subsidiary of the German firm, HHG, one of the leading players in architectural hardware and kitchen/furniture fittings segment, with presence across six continents through 37 subsidiaries. HIPL has access to the diversified product offering of HHG worldwide and enjoys a strong brand image in the premium segment. Its product range is considerably diversified vis-à-vis its competing brands. The company also benefits from technical competence and extensive experience of HHG of over 10 decades in the architectural hardware and kitchen/furniture fittings segments. HIPL has a

network of more than 500 dealers and 300 distributors across India. The distributors further supply to sub-dealers, which primarily cater to the refurbishment market for products such as hinges and door handles. It has a network of ~680 franchisees across India.

Robust financial profile, characterised by strong capital and coverage indicators – With limited reliance on external debt, HIPL's capital structure and coverage indicators continued to remain robust in CY2024, with a gearing of 0.2 times, total debt vis-à-vis the operating profit of 0.9 times and an interest coverage of 12.0 times. Further, the financial risk profile is expected to remain comfortable in the near-to-medium term owing to healthy net cash accruals and efficient working capital management.

Healthy medium-term demand prospects – Higher discretionary spending from rising upper middle-income groups and high net worth individuals, HIPL's key end consumers, augur well for its demand prospects over the medium term. HIPL undertakes several initiatives to promote its brand presence, which has further improved secondary sales. The company has 12 design centres, two each in Mumbai and Sri Lanka, and one each in Kolkata, Pune, Bengaluru, New Delhi, Hyderabad, Chennai, Gurgaon and Dhaka (Bangladesh), for customers to experience the functionality of the brand's products. The company also plans to open one new design centre and 5 appliance galleries in CY2025.

Credit challenges

Working capital intensive nature of operations – The company's working capital intensity has remained high in the range of 15-28% for the last three years on account of its large inventory requirements. It deals in more than 8,000 active stock keeping units (SKUs), most of which are imported. The high lead time necessitates large inventory holding. However, the company's practice of continually monitoring slow moving and non-moving inventory levels mitigates inventory obsolescence risk to a large extent. This facilitates HIPL to have lower working capital borrowing levels and strengthened the capitalisation and coverage metrics. Hence, going forward, efficient management of the inventory and receivables to keep the working capital borrowing levels under check will remain critical.

Intense competitive intensity along with increasing spends impact operating margins – While the gross margins remained healthy in CY2024, increased employee, IT and marketing investments impacted the OPM. HIPL's investments towards marketing initiatives, building of employee capabilities and strengthening of IT systems are expected to continue as the company plans to expand its presence. Moreover, there is a need to continuously invest in marketing initiatives for customer acquisition and retention due to stiff competition in the industry. While these would exert pressure on the OPM in CY2025, the same are expected to improve, going forward, as the revenues ramp up, led by the benefits of these investments. This remains a key monitorable.

Business vulnerable to overall economic environment, Margins remain vulnerable to movement in input prices, along with forex fluctuations – As most of HIPL's (traded) products are imported and are mainly sold in the domestic market, its margins are exposed to fluctuations in foreign currency rates. However, these are primarily mitigated by hedging through forward contracts. Further, its gross margin remains vulnerable to depreciation in the rupee and fluctuation in input prices, though HIPL attempts to pass it on to its customers through periodic revision in prices. HIPL's business remains vulnerable to the overall economic environment as witnessed in the past during the Covid-19 pandemic. This is also underpinned by the discretionary nature of product offering, which the company deals in and its presence in the relatively premium segment.

Liquidity position: Strong

The company's liquidity position is strong, as reflected by a healthy cash flow from operations, unutilised limits of ~Rs. 302 crore and unencumbered cash and liquid investments of Rs. 30.8 crore, as of December 2024. Against this, the company has no long-term debt repayments and minimal capex for setting up design centre and appliance studios. The liquidity position is expected to remain strong due to healthy net cash accruals and efficient working capital management in the near-to-medium term. ICRA also notes that the Hafele Group is also evaluating setting up a manufacturing unit in India to increase domestic procurement. The Group is yet to finalise whether the same will be undertaken in HIPL. The quantum of the investment towards this as well as the mode of funding, in case the same is undertaken by HIPL, will be monitored.

Rating sensitivities

Positive factors – The rating may be upgraded if there is significant improvement in the scale of operations through better product diversification coupled with the ability to expand its operating margins and maintain a healthy liquidity position, on a sustained basis.

Negative factors – Pressure could arise on the ratings if there is a material weakening in the company’s revenues, profit margins and elongation of working capital cycle, which impacts its overall financial/liquidity profile on a sustained basis. Sustained deterioration of operating margins below 9.0% will remain a negative rating trigger. Weakening of the company’s linkages with its parent company or weakening in credit profile of the parent entity may also impact the rating.

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 2003, HIPL is a 100% subsidiary of Germany-based Hafele Holding GmbH (HHG). While initially Hafele used to deal in kitchen/furniture fittings and the architectural hardware product line of HHG, over the last five years, it has diversified its product offerings to include glass and sanitary fittings, sliding fittings, in-built appliances, lighting systems, and kitchen slabs, among others.

Key financial indicators (audited)

Hafele (Standalone)	CY2023	CY2024*
Operating income	1,216.7	1,254.5
PAT	75.1	58.9
OPBDIT/OI	10.0%	9.0%
PAT/OI	6.2%	4.7%
Total outside liabilities/Tangible net worth (times)	0.8	0.7
Total debt/OPBDIT (times)	0.6	0.9
Interest coverage (times)	13.9	12.0

Source: Company, ICRA Research; All ratios as per ICRA’s calculations; Amount in Rs. Crore; * Provisional
 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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years							
		Amount rated (Rs. crore)	Feb 27, 2025	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based / Non-fund Based Limits	Long term/ Short term	322.0	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	27-Nov- 2023	[ICRA]AA- (Stable)/ [ICRA]A1+	10-Aug- 2022	[ICRA]AA- (Stable)/ [ICRA]A1+	14-Dec- 2021	[ICRA]A+ (Positive)/ [ICRA]A1
Unallocated	Long term/ Short term	-	-	-	-	-	-	10-Aug- 2022	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term/short term – Fund based/ Non-fund based	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 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/ Non-fund based	NA	NA	NA	322.0	[ICRA]AA-(Stable)/ [ICRA]A1+

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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