May 25, 2017

HIL Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Long-term: Fund-based limits	100.00 (Revised from 105.00)	Reaffirmed at [ICRA]A+ / Outlook revised to Positive from Stable
Long-term: Unallocated	9.00 (earlier nil)	Reaffirmed at [ICRA]A+ / Outlook revised to Positive from Stable
Short-term: Non-fund based limits	10.00 (Revised from 14.00)	Reaffirmed at [ICRA]A1+
Commercial paper programme	75.00	Reaffirmed at [ICRA]A1+
Total	**194.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating outstanding on the Rs. 100.00 crore (revised from the Rs. 105.00 crore)[1] fund-based facilities and the Rs. 9.00 crore unallocated long-term facilities of HIL Limited (HIL / the company) at [ICRA]A+ (pronounced ICRA A plus)[2]. The outlook on long-term rating has been revised from "Stable" to "Positive". ICRA has also reaffirmed the short-term rating at [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 10.00 crore (revised from the Rs. 14.00 crore) short-term, non-fund based facilities and the Rs. 75.00 crore commercial paper programme of the company.

Rationale

The ratings factor in HIL's sustained market leadership position in the domestic fibre cement (FC) sheet industry and its steady business growth in non-asbestos segments in recent years. HIL's strong parentage as part of the CK Birla Group, wide distribution network, strong brand equity and comfortable financial profile marked by robust growth in earnings, cash flows and debt protection metrics during FY2017, further underpins the ratings. The revision in rating outlook to positive considers the favourable demand prospects for the near to medium term, aided by expected growth in farm output with better monsoons, and loan waivers schemes in few regions.

The ratings remain constrained by the intense competition in the industry, characterised by low entry barriers, supply overhang and presence of alternative products leading to pricing pressures. The ratings also consider the cyclicality in end-user industries, vulnerability of margins to any adverse fluctuations in exchange rates, and potential threat of restrictions on usage of asbestos in the domestic market as well as on mining asbestos in key producing countries. The share of revenues from asbestos segment remains high at 65% as of FY2017, although the same has declined sharply in the last two years.

[1] For complete rating scale and definitions, please refer to ICRA's Website www.icra.in or other ICRA Rating Publications
[2] 100 lakh = 1 crore = 10 million

ICRA

Key rating drivers

Credit strengths

- Part of C K Birla Group
- Established track record in Indian asbestos FC sheet industry; market leader in most of the product segments
- Favourable demand outlook for FC sheets over the medium term
- Competitive advantages emanating from pan India manufacturing presence and well diversified distribution network
- Strong financial risk profile characterised by comfortable coverage and capitalisation indicators

Credit weaknesses

- High competitive intensity in FC sheet business; availability of substitutes exerts pressure on pricing
- Cyclicality in end-user industries
- Threat of restriction on usage of asbestos in domestic market and restrictions in mining asbestos in key producing countries
- Susceptibility of margins to fluctuations in raw material prices and exchange rates

Description of key rating drivers:

HIL is the leading player in the Indian asbestos FC sheet industry with an estimated market share of 23% in FY2017, aided by its strong brand recall, diversified distribution network and pan India manufacturing facilities. Nearly 65% of HIL's revenues come from the FC sheet segment, followed by autoclaved aerated cement blocks (15%), partition panels (6%) and the rest from thermal insulation products, advanced polymer products, and wind energy, etc. HIL also enjoys dominant market share in most segments. Its financial profile is characterised by robust growth in earnings and cash flows during FY2017, despite the impact of demonetisation during Q3, FY2017. With past capital expenditure being largely funded through internal accruals, HIL's debt indicators are strong.

HIL operates in an intensely competitive environment, which coupled with substitute products exert pressure on pricing. High vulnerability to the cyclicality in end-user industries (construction, real estate and rural housing) and threat on restriction on asbestos usage in domestic markets remain key challenges. To overcome the same, HIL diversified its product segments a few years back and managed to reduce the revenue share of asbestos products to 65% in FY2017 (from 82% in FY2015). HIL plans to reinvest its accruals in expanding its capacities in the non-asbestos segment, reducing the concentration further.

The demand outlook for FC sheets is favourable over the near to medium term, with expected growth in farm output supported by relatively better monsoons and announcement of loan waiver schemes in critical regions. Going forward, HIL's ability to sustain its market share, and improve its revenues and margins, while maintaining the debt protection metrics will be critical sensitivities.

Analytical approach:

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below:

Links to applicable criteria:

Corporate Credit Rating - A Note on Methodology

About the company:
HIL Limited, part of the CK Birla Group, manufactures asbestos fibre cement sheets, and new generation building products like autoclaved aerated concrete blocks, aerocon panels and thermal insulation products. HIL has also ventured into advanced polymer products and coloured sheeting in recent years.
HIL has 17 manufacturing plants across the country, supported by ~2,000 stockists, 3,500 retailers and 59 sales depots. Apart from these, the company also has four wind power units with an aggregated capacity of 9.35 MW in Gujarat, Rajasthan and Tamil Nadu.

On a standalone level, the company achieved a net profit of Rs. 54.6 crore on an operating income of Rs. 1,053.6 crore during FY2017. On a consolidated level, the company achieved a net profit of Rs. 39.7 crore on an operating income of Rs. 1,096.3 crore during FY2016.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & Rating	Date & Rating in FY2016	Date & Rating in FY2016	Date & Rating in FY2015
				May 2017	**Aug 2016**	**Jan 2016**	**Jun 2015**
1	Fund Based Limits	Long term	100.0	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Unallocated Limits	Long term	9.00	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Non Fund Based Limits	Short term	10.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper Programme	Short term	75.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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

Instruments Details

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	100.0	[ICRA]A+ (Positive)
Proposed facilities	-	-	-	9.00	[ICRA]A+ (Positive)
Letter of Credit/ Bank Guarantee	-	-	-	10.00	[ICRA]A1+
Commercial Paper Programme	-	-	-	75.00	[ICRA]A1+

Source: Company

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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