July 26, 2017

HIL Limited

Summary of rated instruments

Instruments*	Rated amount (Rs. crore)	Rating action
Long term: Fund-based limits	100.00	Upgraded to [ICRA]AA-(Stable)
Long term: Unallocated	9.00	Upgraded to [ICRA]AA-(Stable)
Short term: Non-fund based limits	10.00	Reaffirmed at [ICRA]A1+
Short term: Commercial paper	75.00	Reaffirmed at [ICRA]A1+
Total	**194.00**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has upgraded the long-term rating to [ICRA]AA- (pronounced ICRA double A minus) from [ICRA]A+ (pronounced ICRA A plus)[1] to the Rs. 100.0 crore[2] fund-based facilities and Rs. 9.00 crore unallocated long term facilities of HIL Limited (HIL / the company) at [ICRA]A+ (pronounced ICRA A plus). The outlook on long term rating is "Stable". ICRA has also reaffirmed the short-term rating at [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 10.00 crore short term non-fund based facilities and Rs. 75.00 crore commercial paper programme of the company.

Rationale

The rating action considers the strong operational and financial profile of HIL and the improving demand outlook for fibre cement (FC) sheet business over the near to medium term. The ratings remain supported by HIL's strong parentage being part of CK Birla group, its sustenance of market leadership position in the domestic FC sheet industry amidst heightened competition, and steady sales growth in non-asbestos segment. HIL's financial risk profile is strong with sustained growth in earnings and free cash flows, and comfortable capitalization and coverage indicators. Over years, the accruals were largely reinvested in business towards capacity expansion purposes across segments. The ratings, however, remain constrained by the demand cyclicality in end-user industries and pricing pressures due to intense competition in the FC sheet industry owing to supply overhang and availability of substitutes. The ratings also consider the potential threat of restrictions on usage of asbestos in the domestic market and also on mining in major asbestos producing countries.

Key rating drivers

Credit strengths

- Part of C K Birla Group
- Established track record in domestic 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 characterized by stable earnings and robust debt indicators

[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*

Credit weaknesses

- High competitive intensity in FC sheet business; availability of substitutes and falling input prices exerts pressure on realisations
- Cyclicality in end-user industries
- Susceptibility of margins to fluctuations in raw material prices and exchange rates

Key rating sensitivity

- Any restriction on asbestos usage in domestic market (or) mining asbestos in key producing nations
- Any large debt funded capital expenditure (or) inorganic growth plans affecting the credit profile

Description of key rating drivers:

HIL is part of CK Birla Group, which has long track record of managing diverse businesses. With over seven decade of operational presence, wide distribution network and strong brand recall, HIL commands a leading position in the domestic asbestos FC sheet industry with ~23% market share in FY2017. While the contribution of FC sheet segment to overall revenues remains high at ~70%, the share has been declining gradually in the recent years with steady growth in other segments (namely autoclaved aerated cement blocks, partition panels, thermal insulation products, advanced polymer products, wind energy etc). HIL commands major market share in most of these segments as well. HIL's credit profile is strong aided by stable earnings, healthy cashflows and comfortable capitalisation and coverage indicators (with gearing of 0.1x and interest cover of 21.1x as on March 31, 2017). In recent, HIL has largely reinvested its accruals towards expanding its capacities (mainly non-asbestos segment) which coupled with the favourable credit terms from suppliers have limited the dependence on debt.

HIL operates in an intensely competitive environment which coupled with presence of substitute products exerts pressure on pricing. Demand for FC sheets is highly vulnerable to the cyclicality in end-user industries (namely construction, real estate and rural housing) and the demand generally peaks during Q1 (Apr-Jun) post rabi harvests. In Q1 FY2018, HIL's sales stood at Rs. 431.9 crore indicating a muted YoY growth with operating and net margin at 15.5% (up 60 bps YoY) and 8.5% (up 120 bps YoY) respectively. The demand outlook for FC sheets business is favourable over the medium term with expected growth in farm output aided by favourable monsoon guidance and government's increasing thrust on infrastructure, affordable housing etc.

Going forward HIL's ability to sustain its market share while maintaining the credit profile will be critical monitorables. Other key rating sensitivities includes - (i) any restriction on asbestos usage in domestic market (or) mining asbestos in key producing nations, and (ii) any large debt funded capital expenditure (or) inorganic growth plans affecting the credit profile of the company.

Analytical approach:

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

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:
HIL Limited, part of the C.K. Birla Group, manufactures asbestos fibre cement sheets, and new generation building products like Autoclaved Aerated Concrete blocks (used for walls) and Aerocon panels (used as partition), thermal insulation products (used in industrial applications). HIL has also ventured into Advanced Polymer Products and coloured sheeting business in recent years.

HIL has 17 manufacturing plants located 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 aggregating to a capacity of 9.35 MW in Gujarat, Rajasthan and Tamil Nadu.

For FY2017, HIL reported a net profit of Rs. 54.6 crore on an operating income of Rs. 1,053.6 crore as against 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 2

S. No.	Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				July 2017	May 2017	Aug 2016	Jan 2016
1	Fund Based Limits	Long term	100.0	[ICRA]AA- (stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Unallocated Limits	Long term	9.00	[ICRA]AA- (stable)	[ICRA]A+ (Positive)	[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	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

Instrument 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]AA- (Stable)
Proposed facilities	-	-	-	9.00	[ICRA]AA- (Stable)
Letter of Credit/ Bank Guarantee	-	-	-	10.00	[ICRA]A1+
Commercial Paper	-	-	-	75.00	[ICRA]A1+

Source: HIL

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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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