December 13, 2019

HIL Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term: Unallocated	109.00	0.00	-
Short-Term: Unallocated	10.00	0.00	-
Long-Term/Short-Term: Unallocated	0.00	119.00	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Commercial Paper	75.00	75.00	[ICRA]A1+; reaffirmed
Total	**194.00**	**194.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings continue to derive comfort from the vast experience of the management and strong operational and financial profile of HIL limited (HIL). The acquisition of Parador Holdings GmbH, Germany (Parador), a Germany-based flooring company in September 2018 diversified its business profile through the addition of a flooring segment to the existing portfolio comprising roofing, building and plumbing solutions. This apart, the acquisition provided geographical diversity to HIL and enabled it to access the global markets, given that Parador operates across Europe and has recently entered China through a JV.

HIL's standalone business profile remains supported by its sustained market leadership position in the domestic fibre cement (FC) sheet industry. The company also continues to benefit from steady growth in the building products segments aided by product launches, solution-based approach and aggressive branding efforts amid severe competitive pressures and challenging macro-economic conditions. While the demand for roofing and building segment has been subdued in the current year due to slowing economic growth, HIL has managed to maintain its dominant market position and premium pricing. Its non-asbestos roofing product, Charminar Fortune, currently targeted towards institutional customers, is finding increasing acceptance and the company is increasing its capacities to meet the potential demand. The building segment is operating at optimal capacities amid demand slowdown and HIL plans to add capacities through organic or inorganic routes over the medium term to tap the growing market demand. The revenues in Pipes and Fittings division have more than doubled in FY2019, although the net breakeven is yet to be reached, given the challenging operating environment. With large investments in the Piping segment in the last two years, adequate capacities are available for growth.

The ratings are constrained by the moderation in debt indicators following the debt-funded acquisition of Parador. Higher dependence on working capital debt for funding working capital requirements because of the change in asbestos-sourcing pattern due to mining restrictions in Brazil also constrains the ratings. The consolidated profit margins and RoCE are also expected to contract due to the rising input prices and increasing revenue share of Parador, which commands relatively lesser margins. The ratings also consider the cyclicality in end-user industries, vulnerability of margins to sharp fluctuations in raw material prices and exchange rates, and competitive pressures that restrict the company's pricing ability.

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 domestic FC sheet market, improving performance in building products and polymer segments, and stable growth in Parador's business.

Key rating drivers and their description

Credit strengths

Diversified business and geographic mix – Prior to the acquisition, HIL's revenues were entirely derived from the domestic market, which exposed its revenues to cyclicality in rural construction and allied industries dependent on monsoon. Also, the share of asbestos-based products, which face regulatory threats, remained high at 74% in FY2017. With the acquisition, the share of asbestos came down to 42%, de-risking the business risk profile from restrictions around the usage of asbestos. Parador has presence across 80 countries and hence, HIL's consolidated revenue profile will encompass half the revenues from markets outside India, which help insulate the top line from any geographic slowdown.

Leading market position lends revenue stability – HIL leads the domestic asbestos FC roofing segment with a market share of 20-22%. It is supported by a pan-India manufacturing presence, wide distribution and dealership network, and strong recall for its brands Charminar and Birla Aerocon. Backed by quality, solution-based approach, focused branding efforts and strong distribution network, HIL's products enjoy premium pricing over competing products.

Financial risk profile characterised by stable earnings and cash flows – HIL's performance in FY2019 was characterised by strong revenue growth of 15.8% at the standalone level, supported by sustained growth in the roofing and building segment and almost doubling of revenues in the Polymer segment (comprising pipes and putty). The standalone operating margins expanded by 170 bps to 13.4% in FY2019 from 11.7% in FY2018, supported by favourable material costs and cost optimisation measures adopted by the company. The net margins increased by a low 60 bps to 6.9% due to an increase in the interest cost owing to debt-funded acquisition. With the ongoing demand slowdown, there has been a 5.7% de-growth in standalone revenues in H1 FY2020. Slowing economic growth shall keep the revenue growth muted in H2 as well. Hence, the company's ability to sustain market share and maintain pricing levels will be a critical monitorable. At the consolidated level, operating margins were low at 11.9% as the acquired entity has high fixed costs that restrict the overall profitability. The net margins were low at 4.6% due to high interest and a one-time acquisition cost of Rs. 22 crore. HIL reported consolidated sales of Rs. 1,349.7 crore and operating margin of 11.1% in H1 FY2020. HIL's focus on increasing the Parador sales from the newer markets, utilisation of idle capacities, better absorption of fixed costs, streamlining inventory levels is expected to improve the performance of the subsidiary.

Credit challenges

Moderation in coverage and capitalisation indicators post acquisition – As the acquisition was funded primarily using debt, the consolidated gearing and total debt/OPBITDA moderated to 1.0x and 2.3x as of September 2019 against 0.1 x and 0.4x as of March 2018, respectively. Also, the company sourced most of its raw material requirements from Brazil, where it enjoyed favourable pricing and credit terms. Post the ban on asbestos mining in Brazil in November 2018, there has been a shift in material requirements, which has impacted the advantage HIL enjoyed on credit terms. This led to an increase in utilisation of working capital limits, which was negligible in the last few years. HIL also has plans of monetisation of non-core assets, the proceeds of which will be used to prepay the debt. However, the quantum and timeliness of the same remains to be seen.

Vulnerability of demand to cyclicality in the end-user industries – HIL operates in a competitive environment, which coupled with the presence of substitute products, exerts pressure on pricing. Also, the demand for FC sheets is vulnerable to the cyclicality in end-user industries (namely construction, real estate and rural housing). While the fortune of domestic business is highly reliant on monsoons with Q1 setting the tone for the full year, the acquired entity Parador also faces cyclicality in sales during the year with weak demand in Q2 and Q3 owing to summers and Christmas holidays. At present, with the majority of revenues in Parador are derived from the European markets and hence, it remains exposed to challenges in the European economic conditions.

Exposure of margins to fluctuations in raw material prices and exchange rates – HIL's margins are susceptible to variations in raw material prices, particularly asbestos fibre and cement. HIL's exports are minimal; imports accounted for approximately 12.8% of the standalone operating income in FY2019. Hence, the company's earnings remain exposed 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.

Liquidity position: Adequate

HIL's liquidity position is **adequate** with expected cash flow from operations of around Rs. 40-50 crore in FY2020 and the current undrawn working capital limits of Rs. 40-50 crore. In relation to these sources of cash, HIL has a planned capex spend of Rs. 90 crore (for which a term loan of Rs. 50 crore is being tied-up) and its debt repayments are nearly Rs. 98.7 crore in FY2020 (of which Rs. 49 crore was repaid in H1 FY2020). Overall, ICRA expects HIL to be able to meet its near-term debt obligation comfortably.

Rating sensitivities

Positive triggers – Upgrade in the long-term rating is unlikely in the next one year as the debt-funded acquisition of Parador currently moderates the debt coverage metrics of the company.

Negative triggers – Negative pressure on HIL's rating could arise due to weakening of the financial profile due to a sharper-than-anticipated decline in cash accruals or deterioration in debt indicators. Specific credit metrics that could result in revision of rating include adjusted debt/OPBDITA above 2.5x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated

About the company

HIL Limited (formerly Hyderabad Industries Limited) is part of the C.K. Birla Group and is headquartered in Hyderabad. The company manufactures asbestos fibre cement sheets, coloured steel sheets, non-asbestos corrugated roofing sheets, new generation building products like 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. HIL also manufactures thermal insulation products that find use in cement, petrochemical, and fertiliser industries, etc. The company has also ventured into advanced polymer products (APP) in FY2014 for manufacturing chlorinated poly vinyl chloride (CPVC) and unplasticised PVC (UPVC) pipes, soil, water and rain (SWR) pipes and putty.

In September 2018, HIL completed the acquisition of a Germany-based flooring company Parador Holdings GmbH, Germany (Parador). HIL has 21 manufacturing facilities spread across the country and two manufacturing sites overseas (Austria and Germany) with a wide distribution network of 40+ sales depots and eight 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 – Roofing Solutions, Building Solutions, Polymer Solutions and Flooring Solutions.

Key financial indicators (audited)

	FY2018	**FY2019**
Operating Income (Rs. crore)	1,279.7	2,208.0
PAT (Rs. crore)	80.8	101.4
OPBDIT/OI (%)	11.7%	11.9%
RoCE (%)	20.2%	19.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	2.1
Total Debt/OPBDITA (times)	0.4	2.5
Interest Coverage (times)	38.7	10.5
DSCR	8.6	8.0

Source: Company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes;
PAT: Profit After Tax; RoCE: Return on Capital Employed; DSCR: Debt Service Cover Ratio1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years						
		Type	Amount Rated	Amount Outstanding	Rating	FY2019			FY2018		FY2017	
					13-Dec-2019	23-Nov -2018	17-Jul -2018	14-Jun-2018	26-Jul-2017	25-May-2017	31-Aug 2016	13-Apr 2016
1	Unallocated	Long Term	109.00	-		[ICRA] AA-/ Stable	[ICRA] AA-&	[ICRA] AA-/ Stable	[ICRA] AA-/ Stable	[ICRA]A+/ Positive	[ICRA] A+/ Stable	[ICRA]A+ /Stable
2	Unallocated	Short Term	10.00	-		[ICRA] A1+	[ICRA] A1+&	[ICRA] A1+	-	-	-	-
3	Unallocated	Long term/ Short Term	119.00	-	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	-	-	-	-	-
4	Commercial Paper	Short Term	75.00	-	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+&	[ICRA] A1+	[ICRA] A1+	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+

Amount in Rs. crore

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

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-Term/Short-Term: Unallocated	-	-	-	119.0	[ICRA]AA- (Stable)/ [ICRA]A1+
-	Commercial paper	-	-	7-365 days	75.0	[ICRA]A1+

Source: HIL Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
HIL Limited	100.00%	Full Consolidation
HIL International GmbH	100.00%	Full Consolidation
Parador Holding GmbH	100.00%	Full Consolidation
Parador Parkettwerke GmbH	100.00%	Full Consolidation
Parador (Shanghai) Trading Co Ltd	50.00%	Equity method

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About ICRA Limited:

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