November 26, 2020

HIL Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term/Short-Term: Unallocated	225.00	250.00	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Commercial Paper	75.00	75.00	[ICRA]A1+; reaffirmed
Total	**300.00**	**325.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings are supported by the extensive experience of the management team, the strong operational and diversified revenue profile and large distribution network of HIL Limited (HIL). The company is an integrated building solution provider operating in four major segments, namely roofing, building, polymer and flooring solutions. HIL's standalone business profile remains supported by its dominant market position in the domestic fibre cement (FC) sheet industry. While the building products segment has been facing headwinds in the last few quarters due to slowdown in real estate sector, its long-term growth prospects are favourable, given its solutions-based approach. Parador Holdings GmbH (Parador), which HIL acquired in September 2018, reported a 13.6% growth in H1 FY2021 despite Covid-19 and other headwinds in Europe, thereby continuing to support HIL's overall revenues and earnings.

The ratings are, however, constrained by the cyclicality in end-user industries, vulnerability of margins to sharp fluctuations in input prices and exchange rates, and competitive pressures as witnessed in the past. The ratings also consider the potential threat of ban on usage of asbestos in the domestic market as well as restriction on mining asbestos fiber at major producing countries. Although the acquisition of Parador aided in reducing the revenue share of asbestos-based products to just over 30% in FY2020 from 78% in FY2016, its share of earnings is much higher.

In H1 FY2021, HIL reported a revenue growth of 5.3% (despite Covid-19 impact) supported by growth in the roofing and flooring segment and expansion of the company's operating and net margins to 14.2% and 10.4%, respectively, on the back of several cost-saving initiatives. While rural demand supported growth in the roofing segment, digital initiatives and new sales models introduced by HIL in Parador backed the flooring segment's performance. During this period, the company sold its calcium silicate insulation products business for a consideration of Rs. 77.6 crore. This apart, prudent working capital management and healthy accruals aided in reduction of gross debt to Rs. 529.0 crore as on September 30, 2020 from Rs. 741.0 crore as on March 31, 2020. With cash and bank balances of Rs. 130.0 crore, the net gearing and net debt/OPBDITA[1] stood at 0.4x and 1.0x, respectively, as on September 30, 2020.

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

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[1] *OPBDITA refers to operating profits before depreciation, interest, tax and amortization; net debt refers to debt adjusted for cash and bank balances*

Key rating drivers and their description

Credit strengths

Diversified business and geographical mix – Prior to the acquisition of Parador in September 2018, 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 revenue share of asbestos-based products, which face regulatory threats, remained high at 78% in FY2016. Post the acquisition, the share of asbestos reduced to ~30% in FY2020, de-risking the business risk profile from restrictions around the usage of asbestos. Parador is present across 80 countries and hence, HIL's consolidated revenue profile reflects half the revenues from markets outside India, which help insulate the top line from impact of slowdown in any specific geography.

Leading market position lends revenue stability – 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.

Healthy financial risk profile characterised by stable earnings and cash flows– For H1 FY2021, HIL posted a 5.3% growth in revenues at the consolidated level aided by strong revenue growth in roofing and flooring segment. Further, with the large revenue share from the high-margin roofing segment, favourable input prices of asbestos fibre and numerous cost-saving initiatives undertaken by the company, its operating margin (OPM) and net profit margin (NPM) expanded by 340 bps and 490 bps, respectively, in H1 FY2021. The NPM expansion was also aided by the one-time gain of Rs. 60.6 crore from sale of the thermal insulation business, which helped in prepayment of long-term debt and improvement in debt metrics with gearing and TD/OPBDITA of 0.6x and 1.3x, respectively, as on September 30, 2020 (against 1.0x and 3.0x, respectively, as on March 31, 2020). Increasing focus on cost control, strong pricing power and prudent working capital management, the company expects to sustain its performance going forward.

Credit challenges

Vulnerability of demand to cyclicality in end-user industries – 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) faces cyclicality in sales during the year due to the weak demand in Q2 and Q3. At present, with most revenues in Parador derived from the European markets, it is exposed to challenges in the European economic conditions. Nonetheless, with the domestic rural markets performing stronger than urban markets and anticipation of a favourable Q4 FY2021 and Q1 FY2022 owing to the healthy monsoon in the current year, demand prospects appear favourable for the near term. Introduction of initiatives like e-commerce, do-it-yourself (DIY) and other digital connect measures have helped Parador achieve a 13.6% growth in H1 FY2021 despite Covid-19 and other headwinds in Europe; such initiatives are expected to support demand going forward as well.

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, with which HIL has long-term contractual arrangements, helps mitigate the risk. The company's exports are minimal, while imports accounted for approximately 17.7% of the standalone revenues in FY2020, 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. The industry remains competitive, thus limiting flexibility on pricing to an extent.

Liquidity position: Strong

HIL's liquidity position is **strong** with cash and bank balance of Rs. 130.0 crore as of September 30, 2020, undrawn working capital lines of Rs. 150.0 crore and moderate average fund-based utilisation of ~59% of sanctioned limits and 64% of drawing power for the 12-month period ending in September 2020 at a standalone level, providing sufficient liquidity buffer. Steadily improving accruals, moderate capex plans of Rs. 60 crore for FY2021 and sharp 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 triggers – Sustained diversification in the business profile (geography and product) and ability to maintain growth in sales and earnings, debt indicators can lead to an upgrade in long-term rating. Specific credit metrics that could result in rating upgrade include net debt/OPBDITA at less than 1.0x on a sustained basis.

Negative triggers – The ratings can be revised downwards with weakening of financial profile due to a sharp decline in cash accruals or deterioration in debt indicators. Specific credit metrics that could result in a revision of rating include net debt to OPBDITA at above 1.5x 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 (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 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 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, it completed the acquisition of a Germany-based flooring company Parador.

HIL has 21 manufacturing facilities spread across the country and two manufacturing sites overseas (Austria and Germany) with a wide distribution network of 38 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—roofing solutions, building solutions, polymer solutions and flooring solutions.

In H1 FY2021, the company reported a net profit of Rs. 144.6 crore on an operating income (OI) of Rs. 1,396.8 crore compared to a net profit of Rs. 72.6 crore on an OI of Rs. 1,326.9 crore in the previous year.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	2,178.8	2,563.6
PAT (Rs. crore)	101.4	106.0
OPBDIT/OI (%)	12.0%	9.8%
PAT/OI (%)	4.7%	4.1%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	1.9
Total Debt/OPBDIT (times)	2.5	3.0
Interest Coverage (times)	10.4	6.5

Source: HIL Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years						
		Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2019			FY2018	
					Nov-26-2020	Mar-27-2020	Dec-13-2019	Nov-23-2018	Jul -17-2018	Jun-14-2018	Jul-26-2017	May-25-2017
1	Unallocated	Long Term	109.00	-	-	-	-	[ICRA] AA-/ Stable	[ICRA] AA-&	[ICRA] AA-/ Stable	[ICRA] AA-/ Stable	[ICRA]A+/ Positive
2	Unallocated	Short Term	10.00	-	-	-	-	[ICRA] A1+	[ICRA] A1+&	[ICRA] A1+	-	-
3	Unallocated	Long term/ Short Term	250.00	-	[ICRA]AA- (Stable) /[ICRA]A1+	[ICRA]AA- (Stable) /[ICRA]A1+	[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 click here

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	-	-	-	250.0	[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 Holdings GmbH	100.00%	Full Consolidation
Pardaor GmBH	100.00%	Full Consolidation
Parador Parkettwerke GmbH	100.00%	Full Consolidation
Parador (Shanghai) Trading Co Ltd	50.00%	Equity method

Source: HIL Limited

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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.

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