HIL Limited

November 23, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Unallocated	109.00	109.00	[ICRA]AA-(Stable) reaffirmed; rating watch with developing implications removed and Stable outlook assigned
Short Term: Unallocated	10.00	10.00	[ICRA]A1+ reaffirmed; rating watch with developing implications removed
Short Term: Commercial Paper	75.00	75.00	[ICRA]A1+ reaffirmed; rating watch with developing implications removed
Total	**194.00**	**194.00**	

Rating action

ICRA has removed its rating on the debt instruments of HIL Limited ('HIL'/'the company') from "rating watch with developing implications" and reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus) outstanding on the Rs.109.00-crore[1] unallocated facilities and short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 10.00-crore unallocated facilities, and Rs. 75.00-crore commercial paper programme of HIL[2]. The outlook on the long-term rating is Stable.

Rationale

ICRA had placed the ratings of [ICRA]AA-/[ICRA]A1+ outstanding on debt instruments of HIL on "watch with developing implications" in July 2018, following HIL's announcement to acquire 100% stake in Germany-based flooring entity, M/s. Parador Holdings GmbH, Germany (Parador). The rating action considers the improvement in HIL's business profile following the synergies expected from the acquisition of Parador and the likely improvement in HIL's consolidated financial profile over the medium term.

In September 2018, HIL acquired a 100% stake in Parador through its Germany-based wholly-owned subsidiary – HIL International GmbH (HILIG) – for an enterprise value of EUR 82.8 million and a total cash consideration of EUR 74.9 million, the same being funded through a 70:30 mix of debt and accruals. ICRA expects the acquisition to de-risk HIL's business profile whereby the revenue share from the asbestos segment shall reduce from 62% in FY2018 to ~35% going forward. The new product complements HIL's existing product portfolio and entry into newer markets will strengthen its business profile. That said, risks emanating from integration-related issues and HIL's ability to utilise Parador's available capacities effectively are key monitorables. With the acquisition being largely debt funded, HIL's consolidated debt indicators are likely to deteriorate marginally in FY2019 with gearing estimated at ~1.0-1.1x and Total debt/OPBDITA at 2.4-2.6x. However, the indicators are expected to improve with gearing estimated at 0.7-0.9x and Total debt/OPBDITA at 1.8-2.0x in FY2020.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

HIL's standalone business profile remains healthy supported by its sustained market leadership position in the domestic fibre cement (FC) sheet industry, and steady growth in non-asbestos segment led by new product launches and solution-focused approach. For H1 FY2019, revenues grew at a healthy rate of 21.5% year on year (YoY), while the operating and net margins expanded by a strong 260 bps and 280 bps respectively.

Outlook: Stable

ICRA believes that the consolidated entity will benefit from the acquisition synergies and stable cash flows supported by healthy operational performance. HIL's ability to improve its consolidated credit profile, optimise the acquisition synergies and maintain its standalone market share are key monitorables. The outlook may be revised to Positive with sustained growth in revenues and profitability while improving its consolidated debt protection metrics. The outlook may be revised to Negative with weakening of financial profile due to a sharper-than-anticipated decline in cash accruals or deterioration in debt indicators.

Key rating drivers

Credit strengths

- **Increasing mix of non-asbestos results in de-risking its existing product-mix -** The contribution of revenues from the asbestos segment is currently high at around 62% in FY2018. With the acquisition of Parador, the contribution of revenues from asbestos segment will reduce to 35%, thus de-risking its revenue profile.

- **Diversified business and geographic mix alongside leading market position lends revenue stability -** HIL leads the domestic asbestos FC roofing segment with a market share of 21-23% supported by pan-India manufacturing presence, wide distribution and dealership network, and strong recall for its brands Charminar and Birla Aerocon. The acquisition of Parador will diversify the product portfolio and enable entry into newer markets globally which will refine the consolidated company's value propositions, leading to YoY growth in business performance.

- **Strong financial risk profile** - HIL's financial performance in H1 FY2019 was strong with revenue growth of 21.5% supported by healthy growth in both asbestos and non-asbestos segments. The non-roofing segment grew by 35.7% during this period. Operating margins grew by 260 bps YoY in H1 FY2019 to 15.6% supported by scale benefits and cost optimisation measures undertaken by HIL.

Credit challenges

- **Moderation in debt indicators due to acquisition; likely to improve over the next 1-2 years-** With the acquisition being largely debt funded, the debt indicators are likely to deteriorate marginally in FY2019 with consolidated gearing estimated at 1.0-1.1x and total debt/OPBDITA at 2.4-2.6x. However, the indicators are expected to improve with gearing estimated at 0.7-0.9x and total debt/OPBDITA at 1.8-2.0x in FY2020.

- **Vulnerability of demand to the cyclicality in the end-user industries and competition in the FC industry -** 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).

- **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 and imports accounts for approximately 8.5% of operating income during H1 FY2019, thereby exposing earnings to fluctuations in foreign currency.

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 (formerly Hyderabad Industries Limited) is part of the C.K. Birla Group and is headquartered in Hyderabad. The company manufactures asbestos fibre cement sheets, and new generation building products like Autoclaved Aerated Concrete (AAC) blocks (light bricks) – which are used for walls in building constructions and Aerocon panels – which are used as partition in residential and commercial buildings. HIL also manufactures thermal insulation products – which find use in cement, petrochemical, and fertilizer industries etc. Moreover, the company has ventured into Advanced Polymer Products (APP) during FY2014 for manufacturing pipes and fittings under the Aerocon brand – which are used in residential and commercial construction industries. HIL has 20 manufacturing facilities spread across the country 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.

In September 2018, HIL completed the acquisition of a German-based flooring entity, M/s. Parador Holdings GmbH, Germany (PHG) following the announcement made in July 11, 2018. The company has acquired 100% stake in PHG, through its wholly-owned subsidiary, HIL International GmbH, Germany.

About M/s. Parador Holdings GmbH:

Incorporated in 1977, Parador Holdings GmbH has developed into the leading brand of high-quality systems for floor and wall design. The product range includes laminate flooring, engineered wood flooring, panels and resilient floorings produced at the German headquarters in Coesfeld and at the Austrian site in Güssing.

Key financial indicators (audited)

Fiscal	FY2017	FY2018
Operating income (Rs. crore)	1,119.1	1,278.6
PAT (Rs. crore)	54.6	80.8
OPBDITA/OI (%)	9.3%	11.6%
RoCE (%)	12.5%	20.2%
Total Debt/TNW (times)	0.1	0.1
Total Debt/OPBDITA (times)	0.7	0.4
Interest coverage (times)	20.1	38.4
NWC/OI (%)	7.0%	-0.8%

Source: Company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth; NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY20119) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Nov 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2019 Jul 2018	June 2018	Date & Rating in FY2018 July 2017	May 2017	Date & Rating in FY2017 Aug 2016	April 2016
1	Unallocated	Long Term	109.0	-	[ICRA] AA-/ Stable	[ICRA] AA-&	[ICRA] AA-/ Stable	[ICRA] AA-/ Stable	[ICRA]A+/ Positive	[ICRA] A+/ Stable	[ICRA]A+ /Stable
2	Unallocated	Short Term	10.0	-	[ICRA] A1+	[ICRA] A1+&	[ICRA] A1+	-	-	-	-
3	Commercial paper	Short Term	75.00	-	[ICRA] A1+	[ICRA] A1+&	[ICRA] A1+	[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term: Unallocated	-	-	-	109.0	**[ICRA]AA-(Stable)**
NA	Short Term: Unallocated	-	-	-	10.0	**[ICRA]A1+**
-	Commercial paper	-	-	7-365 days	75.0	**[ICRA]A1+**

Source: HIL Limited

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

K Srikumar
+91 44 45964318
k.srikumar@icraindia.com

Pooja Mundhra
+91 44 45964313
pooja.mundhra@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999