February 13, 2024

# HIL Limited: Ratings reaffirmed; outlook revised to Negative

## Summary of rating action

| Instrument* | Current Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long-term/Short-term –Fund and Non-fund based Limits | 280.00 | 280.00 | [ICRA]AA(Negative) /[ICRA]A1+; reaffirmed and outlook revised to Negative from Stable |
| Long-term/Short-term – Unallocated | 70.00 | 70.00 | [ICRA]AA(Negative) /[ICRA]A1+; reaffirmed and outlook revised to Negative from Stable |
| **Total** | **350.00** | **350.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The revision in outlook on the long-term rating to Negative for HIL Limited (HIL) factors in the steep decline in operating margins due to increase in raw material costs in the roofing and building segment and slower than expected recovery in flooring solutions owing to headwinds in the European market, which is likely expected to result in moderation of debt protection metrics in FY2024. HIL's operating margins fell by 285 bps YoY to 4.2% in 9M FY2024. The operating income (OI) for FY2024 is estimated at ~Rs. 3400-3450 crore (PY: Rs. 3479 crore) with operating margins in the range of 4.3%-4.5% (PY:6.5%). The reduction in profitability along with debt funded capex would result in an increase in leverage, total debt/EBITDA to 3.0 times (PY: 1.9 times) and moderation in interest coverage to 3.7 times (PY: 11.5) in FY2024. While the revenues are projected to increase by 10-12% YoY in FY2025, the recovery in HIL's operating margins and the consequent improvement in debt protection metrics will remain the key monitorable.

The ratings consider HIL's strong operational risk profile, supported by diversified revenue streams with presence in four major segments, namely roofing, building, polymer and flooring solutions, dominant market position in the domestic fibre cement (FC) sheet industry and large distribution network. The company has strong brand recall for Charminar product and enjoys premium pricing over the competing products. Post acquisition of Parador Holdings GmbH (Parador), in September 2018, HIL enjoys improved geographical diversification, which insulates the top line from the impact of slowdown in any specific geography. Overseas sales accounted for 38% of its revenues in FY2023, which was nil in FY2018. Given the low long-term debt levels and low debt repayment obligations in the near term, the debt service coverage ratio is estimated to be comfortable at 2.6 times (PY: 2.6 times) in FY2024.

The ratings remain constrained by the fluctuations in input costs as witnessed over the past two years and vulnerability of demand to cyclicality in end-user industries, susceptibility of margins to exchange rates and the intense competition in the industry. In addition, exposure of revenues and margins to the regulatory risks related to threat of ban on asbestos-related products as well as on the mining of asbestos in asbestos-producing countries constrain the ratings. While the management has been putting in efforts to de-risk its business profile as reflected in the decline in the revenue share of asbestos to 32% in FY2023 from 71% in FY2018, the OPBITDA share of asbestos-linked business remained significant (>80%) in FY2023. However, with increasing diversification towards non-asbestos based products, the risk is expected to moderate over the medium to long term for HIL.

## Key rating drivers and their description

### Credit strengths

**Leading market position in FC roofing segment** – HIL is a dominant player in the domestic asbestos FC roofing segment. It has pan-India manufacturing presence, wide distribution and dealership network and strong brand recall for Charminar. Backed by focused branding efforts and strong distribution network, the company's products enjoy premium pricing over the competing products.

**Diversified business and geographical mix** – HIL is an integrated building solution provider operating in four segments, namely, roofing, building, polymer and flooring solutions. Post acquisition of Parador Holdings GmbH (Parador), in September 2018, HIL enjoys improved geographical diversification, which insulates the top line from the impact of slowdown in any specific geography. Overseas sales accounted for 38% of its revenues in FY2023, which was nil in FY2018.

**Comfortable DSCR despite pressure on operating margins** – HIL's DSCR is likely to remain healthy, despite the expected pressure on operating margins in FY2024. Given the low debt levels and refinancing of long-term debt in July 2023 resulting in low debt repayment obligations in the near term, the debt service coverage ratio is estimated to be comfortable at 2.6 times (PY: 2.6 times) in FY2024.

### Credit challenges

**Decline in profitability and vulnerability of earnings to fluctuations in raw material prices–** HIL's earnings are exposed to variation in key raw material prices, asbestos fibre, cement, PVC, etc, and any adverse fluctuation in forex rates. Moreover, it has limited ability to pass on the input price hikes to end-users because of intense competition. The operating margins in 9M FY2024 fell by 285 bps YoY to 4.2% on account of due to increase in raw material costs in roofing and building segment and slower than expected recovery in flooring solutions due to headwinds in the European market. The decline in profitability along with debt funded capex would result in an increase in leverage, with total debt to EBITDA to 3.0 times (PY: 1.9 times) and moderation in interest coverage to 3.7 times (PY: 11.5) in FY2024. While the revenues are estimated to increase by 10-12% YoY in FY2025, the recovery in HIL's operating margins and the consequent improvement in debt protection metrics will remain key monitorable. In addition, HIL's exports are minimal, while net imports accounted for ~12-13% of the consolidated revenues in FY2023, exposing its 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 (70-80% of the imports are hedged).

**Exposure to regulatory risks on asbestos-related products with cyclicality in end-user industries –** HIL's revenues and margins are vulnerable to regulatory risks associated with the threat of ban on the usage or manufacture of asbestos-related products as well as on the mining of asbestos in asbestos-producing countries. While the management has been putting in efforts to de-risk its business profile as reflected in the decline in the revenue share of asbestos to 32% in FY2023 from 71% in FY2018, the OPBITDA share of asbestos-linked business remained significant (>80%) in FY2023. However, with increasing diversification towards non-asbestos based products, the risk is expected to moderate over the medium to long term for HIL.

### Environmental and social risks

While some forms of asbestos fibre pose health risks to individuals who are exposed, asbestos cement manufactured using white chrysotile asbestos is of relatively low risk. All manufacturers are required to follow strict environmental norms to operate. Given the safety and environmental health-related concerns associated with asbestos, the industry may be vulnerable to the risk of tightening regulatory norms. Any ban on the mining of asbestos across countries may expose the company to risk of non-availability of raw material. Any ban on the usage of asbestos due to environmental or health concerns could have a significant impact on the operation of FC segment, which is one of the major contributors to HIL's operating profits.

## Liquidity position: Strong

HIL's liquidity position is strong with free cash and liquid investments of Rs. 71.3 crore as on December 31, 2023. The utilisation of fund-based limits has been low at ~25% for the 12-month period ending in August 2023 with healthy cushion of around ~Rs. 169 crore. HIL India does not have any scheduled long-term debt repayment obligations for FY2024 and has repayments of ~Rs. 12 crore scheduled in FY2025 which can be comfortably serviced through its estimated cash flow from operations. The company has capex plan of Rs. 130-140 crore in FY2024 and Rs. 175-200 crore in FY2025 towards expansion of capacities in building and polymer segments, which is likely to be partly funded by debt and remaining through internal accruals.

## Rating sensitivities

**Positive factors –** The outlook can be revised to stable if there is healthy improvement in revenues and profitability across segments resulting in improvement in debt coverage and leverage metrics on a sustained basis.

**Negative factors –** Negative pressure on HIL's ratings may arise if a significant decline in earnings or a considerable debt funded capex or acquisition weakens the debt protection metrics. Specific credit metric for a rating downgrade will include total debt to EBITDA remaining beyond 1.5 times on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | Consolidated financials; please refer Annexure II for the list of entities considered for consolidated analysis |

## 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 construction and aerocon panels and boards that are used as partition in residential and commercial buildings. HIL manufactures advanced polymer products (APP), 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. Recently, it has acquired Fastbuild Blocks Pvt Ltd, which is into blocks to aid of the building segment in Eastern India. HIL has entered new segment in construction chemicals (water proofing, adhesives, primer, etc).

HIL has 25 manufacturing facilities spread across the country and two manufacturing sites overseas (Austria and Germany) with a wide distribution network of 42 sales depots and 4 sales offices. It has a network of more than 3,500 distributors and has more than 20,000 retailers. 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

| Consolidated | FY2022 | FY2023 | 9M FY2024* |
|---|---|---|---|
| | Audited | Audited | Provisional |
| **Operating income** | 3,520.2 | 3,479.0 | 2,523.0 |
| **PAT** | 210.4 | 97.1 | 34.9 |
| **OPBDIT/OI** | 11.1% | 6.5% | 4.2% |
| **PAT/OI** | 6.0% | 2.8% | 1.4% |
| **Total outside liabilities/Tangible net worth (times)** | 0.9 | 0.9 | NA |
| **Total debt/OPBDIT (times)** | 0.8 | 1.9 | NA |
| **Interest coverage (times)** | 31.0 | 11.5 | 3.1 |

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; NA – Not available*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="5">Current rating (FY2024)</th><th colspan="4">Chronology of rating history for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount rated (Rs. crore)</th><th rowspan="2">Amount outstanding as on Dec 31, 2023 (Rs. crore)</th><th colspan="2">Date & rating in FY2024</th><th colspan="2">Date & rating in FY2023</th><th>Date & rating in FY2022</th><th>Date & rating in FY2021</th></tr>
<tr><th>Feb 13, 2024</th><th>Oct 25, 2023</th><th>Dec 07, 2022</th><th>Aug 18, 2022</th><th>Jul 09, 2021</th><th>Nov 26, 2020</th></tr>
<tr><td>1</td><td>Fund-based and Non-fund based limits</td><td>Long-term/Short-term</td><td>280.0</td><td>-</td><td>[ICRA]AA (Negative)/ [ICRA]A1+</td><td>[ICRA]AA (Stable)/ [ICRA]A1+</td><td>[ICRA]AA (Stable)/ [ICRA]A1+</td><td>[ICRA]AA (Stable)/ [ICRA]A1+</td><td>-</td><td>-</td></tr>
<tr><td>2</td><td>Unallocated</td><td>Long-term/Short-term</td><td>70.0</td><td>-</td><td>[ICRA]AA (Negative)/ [ICRA]A1+</td><td>[ICRA]AA (Stable)/ [ICRA]A1+</td><td>-</td><td>[ICRA]AA (Stable)/ [ICRA]A1+</td><td>[ICRA]AA (Stable)/ [ICRA]A1+</td><td>[ICRA]AA- (Stable)/ [ICRA]A1+</td></tr>
<tr><td>3</td><td>Commercial paper</td><td>Short term</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>[ICRA]A1+; reaffirmed and Withdrawn</td><td>[ICRA]A1+</td></tr>
</table>

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long-term/Short-term – Fund-based and Non-fund based limits** | Simple |
| **Long-term/Short-term – Unallocated** | Not Applicable |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

## Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Long-term/ Short-term – Fund-based and Non-fund based limits | NA | NA | NA | 280.0 | [ICRA]AA (Negative)/ [ICRA]A1+ |
| NA | Long-term/ Short-term – Unallocated | NA | NA | NA | 70.0 | [ICRA]AA (Negative)/ [ICRA]A1+ |

*Source: Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

## Annexure II: List of entities considered for consolidated analysis:

| Company Name | HIL Ownership | Consolidation Approach |
|---|---|---|
| HIL Limited | 100.00% (Rated entity) | Full Consolidation |
| HIL International GmBH | 100.00% | Full Consolidation |
| Parador Holdings GmBH | 100.00% | Full Consolidation |
| Parador GmBH | 100.00% | Full Consolidation |
| Parador Parkettwerke GmBH | 100.00% | Full Consolidation |
| Parador (Shangai) Trading Co Ltd | 50.00% | Equity Method |
| Parador UK Limited | 100.00% | Full Consolidation |

*Source: Company*

## ANALYST CONTACTS

**Rajeshwar Burla**
+91 40 6939 6443
rajeshwar.burla@icraindia.com

**Abhishek Lahoti**
+91 40 6939 6433
abhishek.lahoti@icraindia.com

**Anupama Reddy**
+91 40 6939 6427
anupama.reddy@icraindia.com

**D Mohammed Rabbani**
+91 40 6939 6422
d.rabbani@icraindia.com

## RELATIONSHIP CONTACT

**L. Shivakumar**
+91 22 6114 3406
shivakumar@icraindia.com

## MEDIA AND PUBLIC RELATIONS CONTACT

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

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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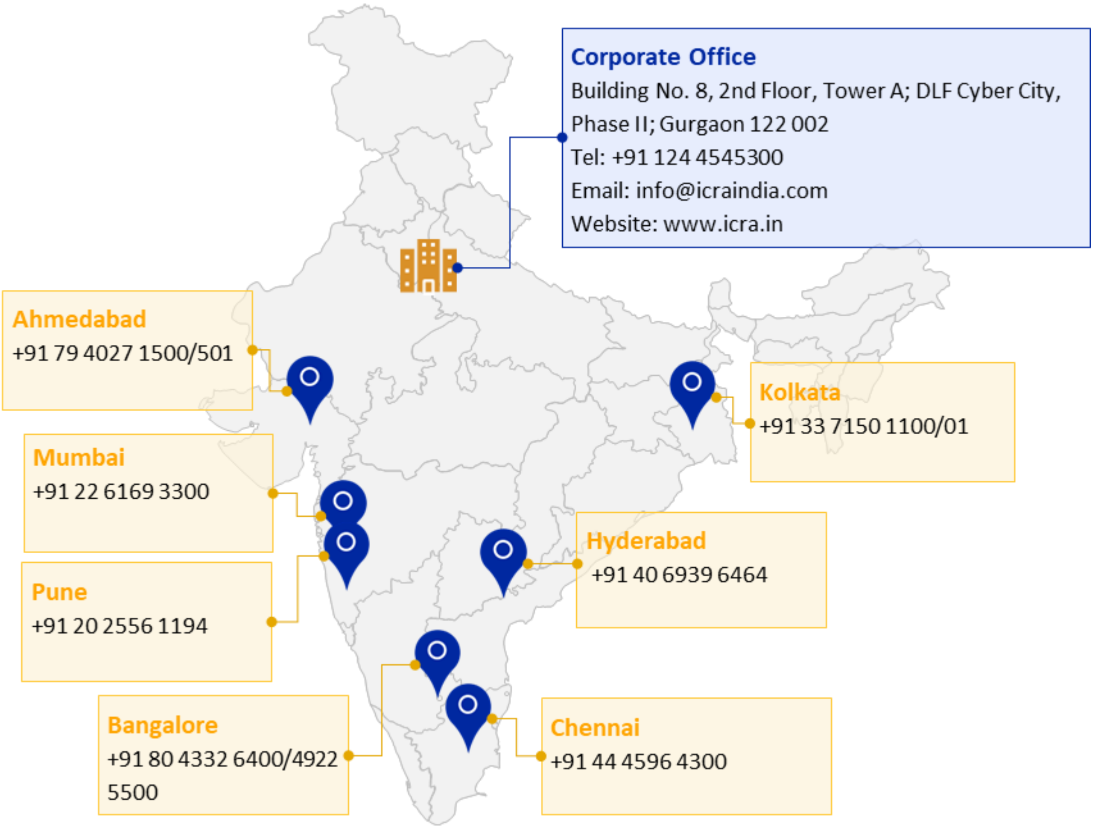
# ICRA Limited

## Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

## Branches





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