November 08, 2024

HIL Limited: Long-term rating downgraded to [ICRA]AA- with change in outlook to Stable from Negative; short-term rating 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 – Fund based and non-fund-based limits	280.0	340.0	[ICRA]AA-; downgraded from [ICRA]AA and outlook revised to Stable from Negative/ [ICRA]A1+ reaffirmed
Long-term/Short-term – Unallocated limits	70.0	10.0	[ICRA]AA-; downgraded from [ICRA]AA and outlook revised to Stable from Negative/ [ICRA]A1+ reaffirmed
Lon-term – Fund based – Term loans	0.0	90.0	[ICRA]AA- (Stable); assigned
Total	**350.0**	**440.0**	

**Instrument details are provided in Annexure-I*

Rationale

The long-term rating downgrade for HIL Limited (HIL) factors in the significant decline in operating margins by 236 bps to 4.1% in FY2024, which is expected to further decline in FY2025, due to delay in ramp-up of flooring solutions owing to continued weak demand in the European market, under-absorption of overhead costs in building and polymer segments which are in ramp-up phase, material increase in employee costs and marketing expenses to support its long-term growth plans. This along with the part debt funded acquisition of Crestia Polytech Private Limited (Crestia) in Q1 FY2025 will further weaken debt coverage and leverage metrics in FY2025 after moderation in FY2024. However, a healthy improvement in revenues and operating profitability is expected from FY2026 onwards as the company is likely to maintain its market leadership position in roofing segment, ramp-up in revenues from building and polymer segments and turn-around of flooring solutions supported by geographic diversification and better absorption of costs. Consequently, debt leverage and coverage metrics are expected to improve in the medium term.

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. 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. The overseas sales accounted for 34% of HIL's revenues in FY2024, which was nil in FY2018. With the recent acquisition of Crestia in April 2024, the revenue contribution from polymer solutions is expected to increase to 22%-23% in FY2025 (PY: 16%) there by supporting revenue diversification. HIL enjoys dominant market position in the domestic fibre cement (FC) sheet (roofing) industry with 24.7% market share as on June 30, 2024, and large distribution network across India. The company has strong brand recall for Charminar products and enjoys premium pricing over the competing products. HIL also derives strong financial flexibility, being a part of the C.K. Birla Group.

The rating strengths are partially offset by the fluctuations in input costs as witnessed over the past 2-3 years and the vulnerability of demand to cyclicality in end-user industries along with the intense competition in the industry. In addition, exposure of revenues and margins to regulatory risks related to the 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 34% in FY2024 from 65% in FY2018, the OPBITDA share of asbestos-linked business remained significant (~80%) in FY2024. However, with the expected ramp-up in revenues and profitability of other segments, the OPBITDA share of asbestos-linked business is estimated to reduce in the medium term.

The Stable outlook on the rating reflects ICRA's opinion that HIL's credit profile will be supported by its diversified business segments, wide distribution network and strong market position in the domestic FC sheet markets.

Key rating drivers and their description

Credit strengths

Diversified business and geographical mix – HIL is an integrated building solution provider with presence in four major 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. The overseas sales accounted for 34% of HIL's revenues in FY2024, which was nil in FY2018. With the recent acquisition of Crestia in April 2024, the revenue contribution from polymer solutions is expected to increase to 22%-23% in FY2025(PY: 16%) there by supporting the revenue diversification. HIL also derives strong financial flexibility, being a part of the C.K. Birla Group.

Leading market position in FC roofing segment – HIL is a dominant player in the domestic asbestos FC roofing segment with 24.7% market share as on June 30, 2024. 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.

Credit challenges

Moderation in debt protection metrics due to expected decline in profitability and partial debt funded acquisition – HIL's operating margins witnessed significant decline in operating margins by 236 bps to 4.1% in FY2024, which is expected to further decline in FY2025, due to delay in ramp-up of flooring solutions owing to continued weak demand in the European market, under-absorption of overhead costs in building and polymer segments which are in ramp-up phase, material increase in employee costs and marketing expenses to support its long-term growth plans. This along with the part debt funded acquisition of Crestia Polytech Private Limited (Crestia) in Q1 FY2025 will further weaken debt coverage and leverage metrics in FY2025 after moderation in FY2024. However, a healthy improvement in revenues and operating profitability is expected from FY2026 onwards as the company is likely to maintain its market leadership position in the roofing segment, with ramp-up in revenues from building and polymer segments and turn-around of flooring solutions supported by geographic diversification and better absorption of costs. Consequently, the debt leverage and coverage metrics are likely to improve in the medium term.

Vulnerability of earnings to fluctuations in raw material prices; exposure to regulatory risks on asbestos-related products with cyclicality in end-user industries – HIL's earnings are exposed the fluctuations in input costs as witnessed over the past 2-3 years and the vulnerability of demand to cyclicality in end-user industries along with intense competition in the industry. In addition, exposure of revenues and margins to the regulatory risks related to the 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 34% in FY2024 from 65% in FY2018, the OPBITDA share of asbestos-linked business remained significant (~80%) in FY2024. However, with the expected ramp-up in revenues and profitability of other segments, the OPBITDA share of asbestos-linked business is estimated to reduce in the medium term.

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: Adequate

HIL's liquidity position is adequate with sufficient cushion available in its consolidated sanctioned fund-based limits of ~Rs. 452 crore (including Parador and Crestia). On a Standalone basis (excluding Parador and Cresita), HIL's utilization remained adequate at 60% of its sanctioned limits for the last 12 months ending September 2024. It has scheduled repayment obligations of ~Rs. 19 crore in H2 FY2025 and Rs. 79 crore in FY2026 at a consolidated level which can be comfortably serviced through its likely cash flow from operations. HIL is undertaking capex in Chennai to double the capacity of blocks which is estimated to be commissioned in December 2024. The overall capex including acquisition is projected to be around Rs. 380-400 crore in FY2025 which is expected to be funded through a debt of ~Rs. 275 crore and the balance through internal accruals.

Rating sensitivities

Positive factors – The long-term rating can be upgraded if there is sustained growth in revenues and significant increase in profitability resulting in improvement in debt protection metrics and liquidity position. Specific credit metrics that could result in rating upgrade include total debt/OPBDITA at less than 1.5x on a sustained basis

Negative factors – Negative pressure on HIL's ratings may arise if there is material decline in revenues or inability to improve profitability or significant debt funded capex/acquisition or stretch in working capital cycle resulting in weakening of debt protection metrics or liquidity position 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 to 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 has headquarters in Hyderabad. At present, HIL operates in 4 major segments – roofing solutions, polymer Solutions, building solutions and flooring solutions (Germany). It has entered a new segment in Construction Chemicals (water proofing, adhesives, primer etc). In India, HIL manufactures asbestos FC sheets, coloured steel sheets, non-asbestos corrugated roofing sheets under roofing, autoclaved aerated concrete (AAC) blocks (light bricks) that are used for walls in building constructions, aerocon panels and boards that are used as partition in residential and commercial buildings under building solutions. The company also manufactures advanced polymer products (APP), chlorinated poly vinyl chloride (CPVC) and unplasticised PVC (UPVC) pipes, soil, water and rain (SWR) pipes and putty under Polymer solutions. In September 2018, it completed the acquisition of a Germany-based flooring company Parador which is into flooring solutions. In 2022, the company has acquired Fastbuild Blocks Pvt Ltd which is into blocks to aid its presence in Eastern India. Recently in April 2024, it completed acquisition of Crestia Polytech along with its four wholly owned subsidiaries to expands its polymer business in East India.

HIL has 32 manufacturing facilities spread across the country including manufacturing sites overseas (Austria and Germany). It has a wide network of more than 3,500 distributors and has more than 21,000 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.

Key financial indicators

Consolidated	FY2023	FY2024	Q1 FY2025
	Audited	Audited	Unaudited
Operating income	3,479	3,375	1,105
PAT	97	35	13
OPBDIT/OI	6.5%	4.1%	6.1%
PAT/OI	2.8%	1.0%	1.2%
Total outside liabilities/Tangible net worth (times)	0.9	1.2	1.3
Total debt/OPBDIT (times)	1.9	5.6	3.0
Interest coverage (times)	11.5	3.9	4.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based and non-fund based limits	Long-term/ Short-term	340.00	Nov 08, 2024	[ICRA]AA-(Stable)/ [ICRA]A1+	Oct 25, 2023	[ICRA]AA (Stable)/ [ICRA]A1+	Aug 18, 2022	[ICRA]AA (Stable)/ [ICRA]A1+	July 09, 2021	-
					Feb 13, 2024	[ICRA]AA (Negative)/ [ICRA]A1+	Dec 07, 2022	[ICRA]AA (Stable)/ [ICRA]A1+		
Unallocated Limits	Long-term/ Short-term	10.00	Nov 08, 2024	[ICRA]AA-(Stable)/ [ICRA]A1+	Oct 25, 2023	[ICRA]AA (Stable)/ [ICRA]A1+	Aug 18, 2022	[ICRA]AA (Stable)/ [ICRA]A1+	July 09, 2021	[ICRA]AA (Stable)/ [ICRA]A1+
					Feb 13, 2024	[ICRA]AA (Negative)/ [ICRA]A1+	Dec 07, 2022	-		
Commercial paper	Short-term	-	Nov 08, 2024	-	Oct 25, 2023	-	Aug 18, 2022	-	July 09, 2021	[ICRA]A1+; reaffirmed and withdrawn
					Feb 13, 2024	-	Dec 07, 2022	-		
Term loan	Long term	90.00	Nov 08, 2024	[ICRA]AA-(Stable)	-	-	-	-	-	-

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 limits	Not Applicable
Long-term – Term loan	Simple

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	340.00	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Long-term/Short-term – Unallocated Limits	NA	NA	NA	10.00	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Long-term – Term loan	2024	NA	2029	90.00	[ICRA]AA- (Stable)

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
Crestia Polytech Private Limited	100.00%	Full Consolidation

Source: Company, ICRA Research

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About ICRA Limited:

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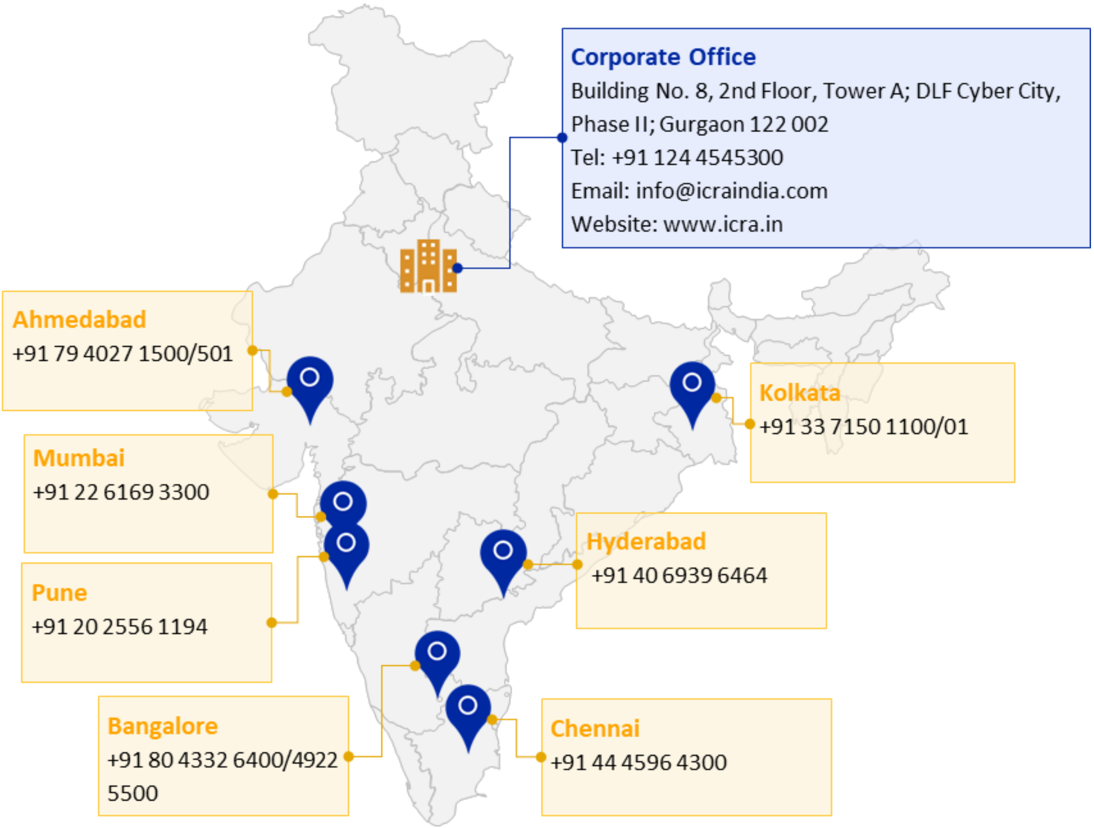

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