

HIL Limited

June 14, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Fund Based facilities	100.00	-	-
Long Term: Unallocated	9.00	109.00	[ICRA]AA-(Stable); reaffirmed
Short Term: Non-Fund based limits	10.00	-	-
Short Term: Unallocated	-	10.00	[ICRA]A1+; reaffirmed
Short Term: Commercial Paper	75.00	75.00	[ICRA]A1+; reaffirmed
Total	194.00	194.00	

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus) outstanding on the Rs.109.00 crore¹ (revised from Rs. 9.00 crore) unallocated facilities of HIL Limited ('HIL' / 'the company')². ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced as ICRA A one plus) outstanding on the Rs. 10.00 crore unallocated facilities. The outlook on the long-term rating is 'Stable'. ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 75.0 crore commercial paper programme of the company.

Rationale

The ratings remain supported by HIL's strong financial profile characterised by healthy growth in revenues, accruals and operational cash flows during FY2018 backed by the pickup in rural demand for the fibre cement (FC)-roofing segment and continued focus on non-asbestos segment. The ratings also consider HIL's sustenance of market leadership position in the domestic FC sheet industry amidst heightened competition, and steady sales growth in non-asbestos segment led by new product launches and solutions focused approach. For FY2018, HIL's revenues grew by 14.2% while operating margins expanded by 230 bps, and debt indicators stood comfortable (gearing, Total debt to operating profits and interest coverage at 0.1x, 0.4x and 38.4 times respectively as of March 2018). Healthy cash accruals coupled with improvement in working capital cycle resulted in strong liquidity position with cash and liquid investments of Rs. 131.5 crore as of March 2018.

The ratings also consider cyclicalities in user industries (like construction, real estate and rural housing) even as the near-term demand outlook is favourable on the back of good monsoons. The ratings also consider the risks of any potential restrictions on asbestos usage in the country, or restriction on mining in key asbestos-producing countries. While the prices of raw material, especially asbestos fibre, has been declining in last two years, the margins are susceptible to any sharp fluctuations in raw material prices (mainly asbestos fibre and cements) apart from any fluctuations in exchange rates.

Going forward HIL's ability to sustain its market share while maintaining the credit profile will be critical monitorable, apart from any large debt funded capital expenditure (or) inorganic growth plans affecting its credit profile.

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

Outlook: Stable

ICRA believes HIL will continue to benefit from its dominant market position in the FC sheeting segment, expected improvement in rural demand and increasing thrust on non-asbestos segments. The outlook may be revised to Positive with sustained growth in revenue and profitability while maintaining the debt protection metrics. The outlook may be revised to Negative with weakening of financial profile due to sharp decline in cash accruals, or deterioration in debt indicators, resulting from any large capital expenditure or acquisitions.

Key rating drivers

Credit strengths

- **Dominant market position in the FC asbestos sheets segment** – HIL continues to lead the domestic asbestos FC roofing segment with an estimated market share of 21-23%. Pan-India manufacturing presence, wide distribution and dealership network, and strong recall for its brand “Charminar” supports its sustained leadership position. In the non-asbestos segments too, HIL has managed to gain incremental market share in recent years.
- **Increasing focus towards non-asbestos segment to de-risk its existing product-mix**- The contribution of revenues from asbestos segment remain high around 62% in FY2018, although the share has been declining gradually over years supported by steady growth in other segments (namely autoclaved aerated cement blocks, partition panels, thermal insulation products, advanced polymer products, wind energy etc). The growth was led by a solutions-centric approach wherein the product offerings are integrated thus providing enhanced value for customers, apart from increased focus on branding and geographical diversification. To de-risk the product profile from asbestos, HIL has also launched a new product under the brand ‘Charminar Fortune’ although its success remains to be seen.
- **Strong financial risk profile** - HIL’s revenue grew by 14.2% in FY2018 supported by healthy growth in both asbestos and non-asbestos segments. While the asbestos segment benefited from recovery in demand with improved rural output / income post good monsoons, the growth in non-asbestos segment was led by ramp-up in capacities and solutions-focused approach. Operating margins grew strong by 230 bps YoY in FY2018 to 11.6% (highest in the last five years) supported by scale benefits, favourable raw material prices and cost optimization measures undertaken by HIL. With strong accruals and capital expenditure spend being funded through internal accruals, HIL’s capital structure remained robust with gearing, Total debt/OPBDITA and coverage at 0.1 times, 0.4 times and 38.4 times, respectively as on March 2018. Healthy cash accruals coupled with improvement in working capital cycle resulted in strong liquidity position with cash and liquid investments of Rs. 131.5 crore as of March 2018.

Credit challenges

- **Vulnerability of demand to the cyclical in the end-user industries and competition in the FC industry** - HIL operates in a competitive environment which coupled with presence of substitute products exerts pressure on pricing. Also, the demand for FC sheets is vulnerable to the cyclical in end-user industries (namely construction, real estate and rural housing).
- **Exposure to regulatory risks associated with threat of ban on use or manufacture of asbestos-related products** – While HIL has been gradually diversifying its product profile by increasing the revenue share from non-asbestos segments and by launching new products within the roofing segment; its business remains exposed to any regulatory risks associated with the threat on usage of asbestos in domestic market as well as restrictions on mining of asbestos in asbestos-producing countries.

- **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 approx. 14% of operating income thus 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 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. The company has also 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 8 sales offices. It has a network of 2500 distributors and its dealership network consists of 6500 sub-dealers. Apart from these, the company also has four wind power units aggregating to a capacity of 9.35 MW in Gujarat, Rajasthan and Tamil Nadu.

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:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years					
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating June 2018	Date & Rating in FY2018		Date & Rating in FY2017		Date & Rating in FY2016	
					July 2017	May 2017	Aug 2016	April 2016	Jan 2016	
1	Fund-based facilities	Nil	-	-	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)
2	Unallocated	109.0	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	-	-	-	-
3	Non-Fund based facilities	Nil	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Unallocated	10.0	-	[ICRA]A1+	-	-	-	-	-	-
5	Commercial paper	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

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents