

August 26, 2019

Hafele India Private Limited: [ICRA]A+ (Stable)/[ICRA]A1 assigned for enhanced amount

Summary of rated action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term /Short-term, Fund-based	30.0	30.0	[ICRA]A+ (stable)/ [ICRA]A1; outstanding
Long-term/Short-term; Fund based/Non-fund Based	190.0	222.0	[ICRA]A+ (stable) /[ICRA]A1; assigned/outstanding
Short-term, fund based	55.0	55.0	[ICRA]A1; outstanding
Long-term/Short-term interchangeable	(37.0)	(37.0)	[[ICRA]A+ (stable)/ [ICRA]A1; outstanding
Total	275.0	307.0	

*Instrument details are provided in Annexure-1

Rationale

The ratings factor in the healthy growth in revenues and profitability of Hafele India Private Limited (HIPL), along with its controlled working capital intensity of operations over the last two years. This has led to improvement in the financial profile. HIPL witnessed a YoY growth of 19% over CY2017 and CY2018, led by healthy off-take in product categories including built-in appliances, besides steady growth in traditional segments of architectural hardware, furniture fittings and kitchen fittings. Over the last two years, HIPL has also reduced its inventory holding period by effectively mapping the inventory requirements to demand and proactive clearing of its aged inventory. The ratings continue to derive comfort from the established position of the German Hafele Group worldwide and its strong brand presence in the premium architectural hardware and kitchen/furniture fittings industry. The ratings also derive strength from the professional management set-up as well as the operational expertise and financial flexibility enjoyed by HIPL's strong parentage. The ratings continue to favourably factor in the strong distribution network of the company, its marketing initiatives and product diversification strategy targeted towards the aspirational spending of the upper middle-income segment and the high net-worth individuals (HNIs); the key customer segments for the company, which have supported the growth in revenues over the past five years.

The ratings, however, remain constrained by the high competitive intensity of the industry, which coupled with investments to support the increased scale of operations, have led to range-bound operating margins and return indicators, while achieving growth. Moreover, given the competitive nature of the industry, there is a need for continuous investments in marketing initiatives for customer acquisition and retention. HIPL's large inventory requirements (given its vast product range) and continued high utilisation of working capital limits also constrain the ratings. In addition, given that around 90% of HIPL's (traded) products are imported, its margins remain exposed to fluctuations in foreign currency rates, although these are largely mitigated by the hedging undertaken by the company through forward contracts. ICRA also notes the high concentration of HIPL's revenues towards BLUM's¹ range of kitchen

¹ BLUM is an Austrian kitchen fittings manufacturer

fittings, nonetheless, draws comfort from its established relationship with Hafele Group worldwide as exclusive distributors for BLUM's products.

Outlook: Stable

ICRA expects HIPL to sustain the improvement in its financial profile aided by healthy growth in revenues and profitability, along with reasonable level of working capital intensity of operations. The outlook may be revised to Positive if there is a sustained improvement in HIPL's scale of operations through better than expected growth in revenues and profitability, along with material improvement in the return indicators. The outlook may be revised to Negative if HIPL's credit profile weakens due to stretched working capital cycle or higher than estimated debt-funded capital expenditure, or if there is a significant decline in its OPM or any adverse changes in its dividend payout policy and shareholding pattern.

Key rating drivers

Credit strengths

Strong brand presence in the premium architectural hardware and furniture fittings segment; operational expertise and financial flexibility on account of strong parentage - HIPL is a wholly-owned subsidiary of the German firm, Hafele Holding GmbH (HHG). HHG is one of the leading players in the architectural hardware and kitchen/furniture fittings segment, with a presence across six continents through 37 subsidiaries. HIPL enjoys access to the diversified product offering of HHG worldwide and enjoys strong brand image in the premium segment. The product range of HIPL is also more diversified vis-à-vis the competing brands. Besides operational expertise, HIPL also benefits from the strong financial flexibility arising on account of its parentage.

Healthy growth in operating income over the past five years – The operating income of the company has witnessed healthy growth with a CAGR of 27% over the past four years to Rs. 712.9 crore in CY2018, aided by its strong brand image and supported by increasing distribution strength. Besides healthy sales in traditional segments like architectural hardware, furniture fittings and kitchen fittings, growth over the past three years has also been led by increased sales in new product segments like appliances, glass fittings, lighting systems, sanitary and sliding fittings. Among these, the off-take in the built-in appliances segment has been particularly strong, with the segment having witnessed a healthy 80% CAGR over the last four years.

Improvement in the financial profile- HIPL's financial profile has improved over the last two years on account of its year-on-year improvement in profitability. The company also effectively managed its inventory and working capital requirements over the last two years. The parent company has also supported the funding requirements of HIPL by withholding dividend pay-outs during the past three years. These factors facilitated improvement in the financial profile, with HIPL reporting NCA/TD of 23% and TD/OPBDITA of 2.5 times as of December 31, 2018.

Strong distribution network comprising dealers and exclusive franchisees; focus on marketing initiatives to aid secondary sales – HIPL has a network of more than 2,000 dealers and exclusive distributors across India. Distributors further supply to sub-dealers who primarily cater to the refurbishment market through products like hinges and door handles. The franchisee network comprises 75 exclusive franchisees across India. The company also undertakes several initiatives to increase the brand presence of HIPL, which further result in improved secondary sales. The company has 10 design centres, with two each in Mumbai and Chennai, and one each in Kolkata, Pune, Bengaluru, New Delhi, Dhaka (Bangladesh) and Colombo (Sri Lanka), for customers to experience the functionality of the brand's products.

Credit challenges

High competitive intensity of the segment; coupled with investments to support the increased scale of operation have resulted in range-bound operating margins while achieving growth – The architectural hardware and furniture fittings industry is highly fragmented with several organised and unorganised players in the field. The operating margins of HIPL have remained moderate and range-bound owing to the high competitive intensity of the industry as well as investments undertaken (towards employees, sales, marketing and distribution activities) to support its increased scale of operations. Given that around 90% of HIPL's (traded) products are imported and largely sold in the domestic market, its margins also remain exposed to fluctuations in foreign currency rates; although these are largely mitigated by the hedging undertaken through forward contracts.

Large inventory requirements, given the vast product range - The working capital intensity of operations (net working capital as a percentage of operating income) of the company has remained high in the range of 37-40% on account of its large inventory requirements. The company deals in more than 8,000 active stock keeping units (SKUs), most of which are imported. The high lead time necessitates large inventory holding. The company, however, effectively managed and controlled its inventory requirements over CY2017 and CY2018, which facilitated reduction in the inventory holding period. The management achieved this by effectively mapping the inventory requirements to the expected demand and being more proactive in clearing aged inventory. Sustaining the same, going forward, will be a key positive factor.

Moderate liquidity position - The liquidity position of the company is moderate as evinced in its high utilisation of working capital limits. Comfort can, however, be drawn from the fact that the company has been able to timely secure enhancements in working capital limits.

Liquidity position

The liquidity position of the company has remained moderate owing to its moderate profitability and high, albeit improving, working capital intensity of operations. This is also evinced in high utilisation of working capital limits, which averaged around 77% for the 12 months ended June 2019. Nonetheless, comfort can be drawn from the fact that the company has been able to timely secure enhancements in working capital limits. The parent company has also supported the funding requirements of HIPL by way foregoing dividend receipts during the past three years. HIPL also benefits from the strong financial flexibility arising on account of its parentage.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable.
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Incorporated in 2003, HIPL is a 100% subsidiary of the German firm, Hafele Holding GmbH (HHG). While HIPL originally dealt in kitchen/furniture fittings and the architectural hardware product line of HHG, over the last four years it has diversified into segments such as glass and sanitary fittings, sliding fittings, built-in appliances, lighting systems and kitchen slabs, among others.

HIPL has a product range of over 150,000 articles, which are either supplied under the in-house brand range or through other suppliers. The in-house brand range comprises nine brands, including Nagold (appliances), Ixconnect (connectors), Moovit (runner systems), Slido (sliding door solutions), Dialock (electronic locking and access control systems), Loox (lighting series), Officys (furniture fittings for offices) and EPC (customised client solutions). The above-mentioned products are assembled globally at Hafele Germany and Hafele China before being supplied to various subsidiaries. HIPL also deals in brands of over 1,500 suppliers like BLUM (Austria), Bertazonni (Italy), and Blanco (Germany), etc. The company has a presence in Sri Lanka, Bhutan, Bangladesh and Nepal.

For the 12 months ended December 31, 2018, HIPL reported a net profit of Rs. 27.5 crore on an operating income (OI) of Rs. 712.9 crore, as against a net profit of Rs. 26.1 crore on an OI of Rs. 602.8 crore for the 12 months ended December 31, 2017 (audited)

Key financial indicators (Audited)

	CY2017	CY2018
Operating Income (Rs. crore)	34.3	712.9
PAT (Rs. crore)	5.1	27.5
OPBDIT/ OI (%)	9.3%	9.7%
RoCE (%)	19.6%	17.8%
Total Debt/ TNW (times)	1.2	1.1
Total Debt/ OPBDIT (times)	2.7	2.5
Interest Coverage (times)	4.9	5.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument		Current Rating (FY2020)		August 2019	May 2019	Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)			Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017	
						September 2018	June 2018	October 2017	April 2017	October 2016	September 2016
1	Fund-based Limits	Long-term/ Short-term	30.0	NA	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Positive) / [ICRA]A1	[ICRA]A (Positive) / [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1
2	Fund-based / Non-fund Based Limits	Long-term/ Short-term	222.0	NA	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Positive) / [ICRA]A1	[ICRA]A (Positive) / [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1
3	Fund-based Limits	Short-term	55.0	NA	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Interchangeable bank facilities	Long-term/ Short-term	(37.0)	NA	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Positive) / [ICRA]A1	[ICRA]A (Positive) / [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [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	Fund-based limits	-	-	Repayable on demand	30.0	[ICRA]A+ (Stable)/[ICRA]A1
NA	Fund-based / Non-fund Based Limits	-	-	Repayable on demand	222.0	ICRA]A+ (Stable)/[ICRA]A1
NA	Fund-based Limits	-	-	Repayable on demand	55.0	[ICRA]A1
NA	Interchangeable bank facilities	-	-	Repayable on demand	(37.0)	ICRA]A+ (Stable)/[ICRA]A1

Source: Hafele India Private Limited

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About ICRA Limited:

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