August 18, 2022

HIL Limited: Ratings 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 and Non-fund based Limits	0.0	320.0	[ICRA]AA (Stable)/ [ICRA]A1+; Reaffirmed/Assigned
Long-term/Short-term – Unallocated	250.0	30.0	[ICRA]AA (Stable)/ [ICRA]A1+; Reaffirmed
Total	**250.0**	**350.0**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings factors in HIL Limited's (HIL) strong operational and diversified revenue profile, large distribution network, dominant market position in the domestic fibre cement (FC) sheet industry along with its comfortable leverage and coverage metrics. The company is an integrated building solutions provider operating in four major segments, namely roofing, building, polymer and flooring solutions. With the acquisition of Parador Holdings GmbH (Parador), in September 2018, HIL's geographical diversification has improved, thus insulating its top line from the impact of slowdown in any specific geography. Sales from Parador accounted for 44% of HIL's revenues in FY2022, which remained nil in FY2018. Despite reduction in the operating margins by 232 bps in FY2022, the leverage remained comfortable with net debt/OPBIDTA at 0.6 times (PY: 0.6 times) as of March 2022, backed by a decline in the consolidated debt (excluding lease liabilities) to Rs. 287.7 crore. The debt coverage metrics remained healthy with interest cover at 31.0 times (PY:14.7 times) and DSCR at 4.5 times (PY: 3.0 times) in FY2022. While the pressure on operating margins is likely to continue and the capex is expected to be part funded by debt in FY2023, the leverage and debt coverage metrics are estimated to be comfortable, given the relatively low levels of existing debt and debt obligations.

The ratings, however, are constrained by the vulnerability of HIL's operating margins to fluctuations in input costs as reflected by the decline in margins by 232 bps to 11.1% in FY2022 and 520 bps year-on-year (YoY) to 11.3% in Q1 FY2023 due to the higher raw material costs and rise in ocean freight expenses. The pressure on the margins is likely to continue in the near term across roofing, flooring and polymer segment. The ratings factor in the vulnerability 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. While the management has been putting in conscious efforts to de-risk its the business risk profile as reflected in the decline in the revenue share of asbestos to 30% in FY2022 from 71% in FY2018, the OPBIDT share of asbestos-linked business remained significant at 59-60% in FY2022. However, with increasing diversification towards non-asbestos-based products, the risk is expected to moderate over the medium to long term for HIL. The ratings remain constrained by the vulnerability of demand to cyclicality in end-user industries, vulnerability of margins to exchange rates and the intense industry competition.

The Stable outlook on the [ICRA]AA rating reflects ICRA's opinion that HIL's credit profile will be supported by its strong market position in the domestic FC sheet market, improved performance in building products and comfortable leverage position.

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 and Birla Aerocon. Backed by focused branding efforts and strong distribution network, HIL's products enjoy premium pricing over the competing products.

Diversified business and geographical mix – HIL is an integrated building solutions provider operating in four segments, namely, roofing, building, polymer and flooring solutions. With the acquisition of Parador Holdings GmbH (Parador), in September 2018, HIL enjoys improved geographical diversification, which insulates it top line from the impact of slowdown in any specific geography. Overseas sales accounted for 44% of HIL's revenues in FY2022, which was nil in FY2018.

Leverage and debt coverage metrics likely to remain healthy in FY2023 despite margin pressure – HIL's outstanding consolidated debt (excluding lease liability) reduced by 29.9% to Rs. 287.7 crore as of March 2022 due to prepayment of long term debt outstanding and decrease in working capital debt. Despite decline in the operating margins by 232 bps in FY2022, the leverage remained comfortable with net debt/OPBIDTA at 0.6 times (PY: 0.6 times) and TOL/TNW at 0.9 times (PY: 1.1 times) as of March 2022. Its debt coverage metrics remained healthy with interest cover at 31.0 times (PY: 14.7 times) and DSCR at 4.5 times (PY: 2.9 times) in FY2022. While the pressure on operating margins is likely to continue and the capex expected to be part funded by debt in FY2023, the leverage and protection metrics are estimated to be comfortable, given the relatively low levels of existing debt and debt obligations.

Credit challenges

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 conscious efforts to de-risk its business risk profile as reflected in the decline in the revenue share of asbestos to 30% in FY2022 from 71% in FY2018, the OPBIDT share of asbestos-linked business remained significant at 59-60% in FY2022. However, with increasing diversification towards non-asbestos-based products, the risk is expected to moderate over the medium to long term for HIL. The demand for FC sheets is vulnerable to the cyclicality in end-user industries. Demand for asbestos FC sheets primarily comes from rural and semi-urban regions. The fortune of domestic business is highly reliant on monsoons with Q1 setting the tone for the full year, as FC sheet sales are susceptible to volatility in monsoon trends. In Q1 FY2023, HIL has reported an increase in the sales volumes by ~5%.

Vulnerability of earnings to fluctuations in raw material prices, competition and exchange rates – HIL's operating margins are exposed to variation in key raw material prices, asbestos fibre, cement, HDF, MDF, PVC, etc, and any adverse fluctuation in forex rates. Nonetheless, the shift in fibre sourcing from Russia and Kazakhstan to Brazil in FY2021, with which HIL has long-term contractual arrangements (both price and volume), helps to mitigate the risk to some extent. It faces stiff competition from manufacturers of galvanized iron roofing sheets, which are easily transportable and accessible. Moreover, it has limited ability to pass on the input price hikes to end users because of intense competition. The operating margins declined by 232 bps to 11.1% in FY2022 and 520bps YoY to 11.3% in Q1 FY2023 due to the higher raw material costs and rise in ocean freight expenses. In addition, HIL's exports are minimal, while net imports accounted for approximately 19-20% of the standalone revenues in FY2022, 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%-90% of the imports are hedged).

Liquidity position: Strong

HIL's liquidity position is strong with free cash and liquid investments of Rs. 72.6 crore as on March 31, 2022 and significant buffer in its sanctioned fund-based working capital limits of Rs. 320 crore as reflected by the low average fund-based utilisation of ~3% of the sanctioned limits for the 12-month period ending in April 2022 at a standalone level. HIL has capex plans of Rs. 175 crore in FY2023, which is likely to be partly funded by debt and the remaining through internal accruals. The healthy accruals and focus on improving working capital intensity are likely to keep the liquidity strong going forward.

Rating sensitivities

Positive factors – ICRA may upgrade the rating if there is sustained increase in revenues and earnings share from the non-asbestos segments. Specific credit metrics that could result in a rating upgrade include RoCE of more than 25% and net debt to EBITDA decreasing below 0.5 times 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 on a sustained basis. Specific credit metric for a rating downgrade will include net debt to EBITDA increasing beyond 1.2times on a prolonged basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated; please refer Annexure 2 for the list of entities considered for consolidated analysis

About HIL

HIL Limited (HIL) is a part of the C.K. Birla Group and is headquartered in Hyderabad. It manufactures asbestos FC sheets, coloured steel sheets, non-asbestos corrugated roofing sheets, new generation building products such as autoclaved aerated concrete (AAC) blocks (light bricks) that are used for walls in building constructions, and aerocon panels and boards that are used as partition in residential and commercial buildings. The asbestos FC sheets are sold under the brandname 'Charminar', non-asbestos cement roofing sheets under 'Charminar Fortune' and building products under 'Birla Aerocon'. It also manufactures advanced polymer products (APP) needed for producing 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, HIL has acquired Fastbuild Blocks Pvt Ltd which manufactures blocks for the building segment catering to eastern India.

HIL has 22 manufacturing facilities spread across the country and two manufacturing sites overseas (Austria and Germany) with a wide distribution network of 40 sales depots and three sales offices. It has a network of 2,500 distributors and its dealership network consists of 6000+ sub-dealers. HIL also 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—flooring solutions (44% of OI in FY2022), roofing solutions (30%), polymer solutions (15%) and building solutions (11%).

Key financial indicators (audited)

HIL Consolidated	FY2021	FY2022
Operating income	3,043.6	3,520.2
PAT	259.7	210.4
OPBDIT/OI	13.4%	11.1%
PAT/OI	8.5%	6.0%
Total outside liabilities/Tangible net worth (times)	1.1	0.9
Total debt/OPBDIT (times)	1.1	0.8
Interest coverage (times)	14.7	31.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest and taxes; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					August 18, 2022	Jul 9, 2021	Nov 26, 2020	Mar 27, 2020	Dec 13, 2019
1	Fund and Non-fund Based Limits	Long term and short term	320.0	-	[ICRA]AA (Stable) / [ICRA]A1+	-	-	-	-
2	Unallocated	Long term and short term	30.0	-	[ICRA]AA (Stable) / [ICRA]A1+	ICRA]AA (Stable) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+
3	Commercial Paper	Short term	0.00	-	-	[ICRA]A1+; Withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term and short term – Fund and Non-Fund Based Limits	Simple
Long term and short term – Unallocated	NA

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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term and short term – Fund and Non – fund Based Limits	NA	NA	NA	320.0	[ICRA]AA (Stable) / [ICRA]A1+
NA	Long term and short term – Unallocated	NA	NA	NA	30.0	[ICRA]AA (Stable) / [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

Source: HIL Limited

Note: ICRA has considered the consolidated financials of HIL Limited, its subsidiaries and associates while assigning the ratings

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