

October 25, 2023

## HIL Limited: Ratings reaffirmed

### 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	350.0	280.0	[ICRA]AA (Stable)/[ICRA]A1+; reaffirmed
Long-term/Short-term – Unallocated	0.0	70.0	[ICRA]AA (Stable)/[ICRA]A1+; reaffirmed
<b>Total</b>	<b>350.0</b>	<b>350.0</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of ratings for HIL Limited (HIL) factors in its 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, large distribution network and comfortable coverage metrics.

Notwithstanding the increase in revenues in roofing and building segments, the overall revenue growth at the consolidated level remained muted in FY2023 due to slowdown in demand for flooring solutions. The company's operating margins moderated by around 450 bps in FY2023 owing to significant increase in fibre costs, PVC resin prices, under absorption of overheads for Parador Holdings GmbH (Parador). Despite an expected increase in revenues by 3-4% year-on-year (YoY) in FY2024, the pressure on operating margins is likely to continue. Given the low debt levels and refinancing of long-term debt resulting in low debt repayment obligations in the near term, the debt coverage metrics are estimated to be comfortable. The interest coverage ratio is expected to remain at around 9.4 times (PY: 11.5 times) and DSCR at around 3.6 times (PY: 2.6 times) in FY2024. While the leverage (net debt/OBITDA) is estimated to be around 1.5 times in FY2024, it is likely to reduce to below 1.0 times in FY2025 with expected growth in revenues across segments and improvement in operating margins with reduction in raw material costs.

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 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 OPBDIT 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. The ratings remain constrained by the fluctuations in input costs as witnessed over the past two years and vulnerability of demand to cyclical in end-user industries, vulnerability of margins to exchange rates and the intense competition in the industry.

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, low leverage and comfortable coverage metrics.

## 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 coverage metrics despite pressure on margins** – HIL's financial risk profile is likely to remain healthy, despite the expected pressure on operating margins in FY2024, given the relatively low levels of existing debt and lower debt obligations due to refinancing of long-term debt. The debt coverage metrics are estimated to be comfortable with interest coverage ratio is projected to remain at 9.4 times (PY: 11.5 times) and DSCR at 3.6 times (PY: 2.6 times) in FY2024. While the leverage (net debt/OBITDA) is estimated to be around 1.5 times in FY2024, it is expected to reduce to below 1.0 times in FY2025, with likely growth in revenues across segments and improvement in operating margins with reduction in raw material costs.

### Credit challenges

**Exposure to regulatory risks on asbestos-related products with cyclicity 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 OPBDIT 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. The demand for FC sheets is vulnerable to the cyclicity 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.

**Vulnerability of earnings to fluctuations in raw material prices, competition, and exchange rates** – 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 moderated by around 450 bps in FY2023 due to significant increase in fibre costs, PVC resin prices and under absorption of raw material costs for parador. In addition, HIL's exports are minimal, while net imports accounted for approximately 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%-90% of the imports are hedged).

### 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 exposed 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. 99.1 crore as on June 30, 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. It has capex plans of Rs. 140-150 crore in FY2024, which is likely to be partly funded by debt and the remaining through internal accruals.

## Rating sensitivities

**Positive factors** – ICRA may upgrade the ratings 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. Specific credit metric for a rating downgrade will include net debt to EBITDA increasing beyond 1.2 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated financial; 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 in Eastern India of the building segment. 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
	Audited	Audited
Operating income	3,520.2	3,479.0
PAT	210.4	97.1
OPBDIT/OI	11.1%	6.5%
PAT/OI	6.0%	2.8%
Total outside liabilities/Tangible net worth (times)	0.9	0.9
Total debt/OPBDIT (times)	0.8	1.9
Interest coverage (times)	31.0	11.5

Source: Company data; ICRA Research

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

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

Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022	Date & rating in FY2021
					Oct 25, 2023	Dec 07, 2022	Aug 18, 2022		
1	Fund-based and Non-fund based limits	Long-term/Short-term	280.0	-	[ICRA]AA (Stable)/[ICRA]A1+	[ICRA]AA (Stable)/[ICRA]A1+	[ICRA]AA (Stable)/[ICRA]A1+	-	-
2	Unallocated	Long-term/Short-term	70.0	-	[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	-	-	-	-	-	[ICRA]A1+; Withdrawn	[ICRA]A1+

## 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 (Stable)/ [ICRA]A1+
NA	Long-term/ Short-term – Unallocated	NA	NA	NA	70.0	[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 (Shanghai) Trading Co Ltd	50.00%	Equity Method
Parador UK Limited	100.00%	Full Consolidation

Source: HIL Limited

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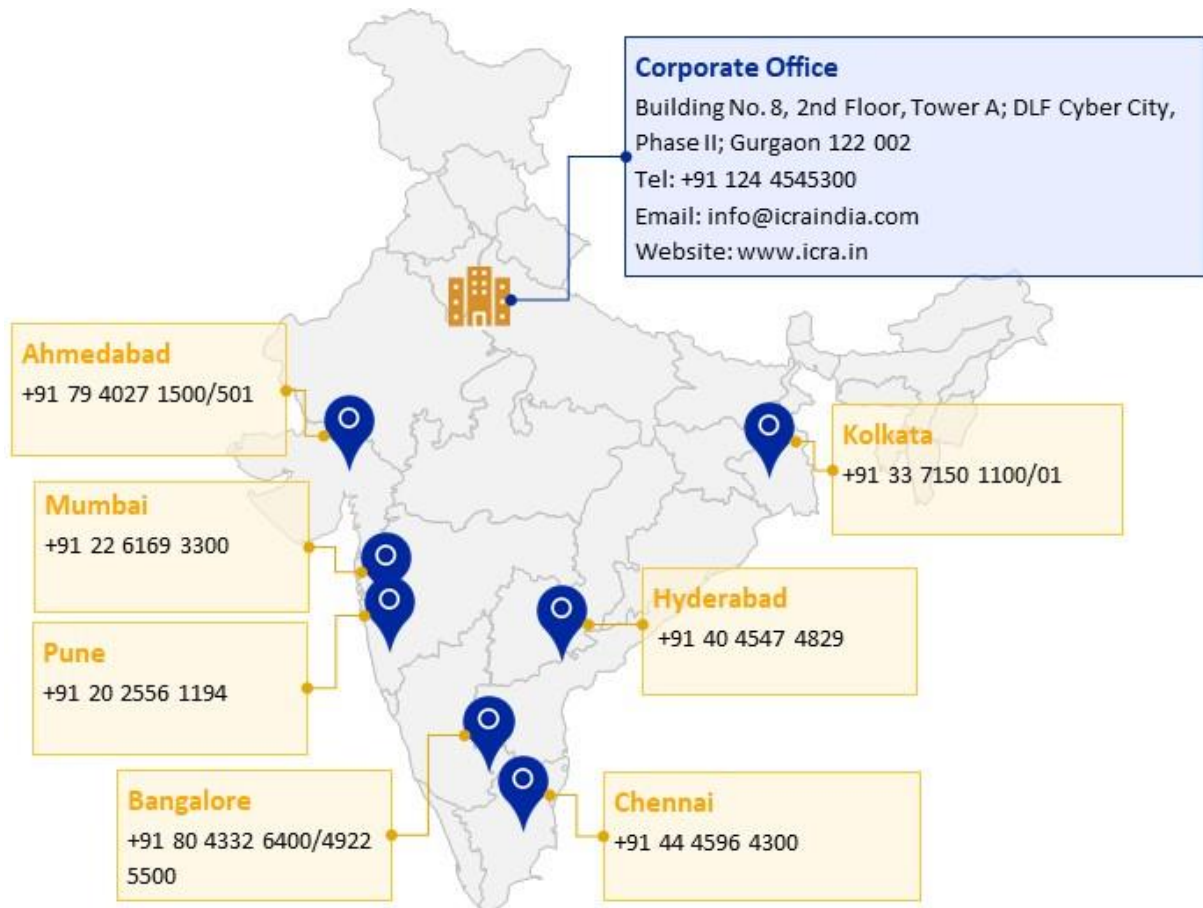
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