March 27, 2020

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: Unallocated	119.00	225.00	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Commercial Paper	75.00	75.00	[ICRA]A1+; reaffirmed
Total	**194.00**	**300.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings draw comfort from the vast experience of the management and the strong operational and diversified revenue profile of HIL Limited (HIL). It is an integrated building solution provider operating in four major segments viz, roofing, building, polymer and flooring solutions. The flooring segment is a recent addition to HIL's portfolio through the acquisition of Parador Holdings GmbH, Germany (Parador) in September 2018, aimed at reducing the contribution of asbestos-based products in the consolidated revenue. HIL's standalone business profile remains supported by its dominant market position in the domestic fibre cement (FC) sheet industry, steady growth in building segment supported by solutions-based approach and aggressive branding efforts amid severe competition in the polymer segment. HIL's non-asbestos roofing product, Charminar Fortune, currently targeted towards institutional customers, is finding increasing acceptance. The company has invested in increasing its capacities by setting up a new dedicated plant for this product at Faridabad to meet the potential demand. The building segment is operating at near-full capacities and HIL has invested in capacity addition for blocks and panels to tap the growing market demand. In Q4 FY2020, the company sold and transferred its calcium silicate insulation products business for a consideration of Rs. 80 crore, as the same did not have synergy to its other core businesses.

The ratings are, however, constrained by moderation in debt indicators following the debt-funded acquisition of Parador and increasing dependence on working capital debt following the change in asbestos-sourcing pattern. The demand for the roofing and building segment has been subdued in the current year due to slowing economic growth, poor rural liquidity and slowdown in project launches. This coupled with rise in input prices impacted HIL's accruals in 9M FY2020, though the company managed to maintain its premium pricing. Though the revenues in the pipes and fittings division doubled in FY2019, the breakeven continues to be delayed as capacity utilisation remains low. The consolidated profit margins and RoCE levels have contracted due to the rising input prices and increasing revenue share of Parador, which commands relatively lesser margins. Further, the ratings are constrained by the cyclicality in end-user industries, vulnerability of margins to sharp fluctuations in input prices and exchange rates, and competitive pressures that restrict HIL's pricing ability.

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 domestic FC sheet market, improving performance in building products and polymer segments and stable growth in Parador's business. ICRA notes that HIL's operations will be affected in the near-term due to COVID-19. Further, longer-than-expected halt in operations (or) larger impact on demand in end-user industries shall be a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Diversified business and geographical mix with significant reduction in share of asbestos products – Prior to the acquisition of Parador in September 2018, HIL's revenues were entirely derived from the domestic market, which exposed its revenues to cyclicality in rural construction and allied industries dependent on monsoon. Also, the share of asbestos-based products, which face regulatory threats, remained high at 74% in FY2017. With the acquisition, the share of asbestos came down to 42%, de-risking the business risk profile from restrictions around the usage of asbestos. Parador has presence across 80 countries and hence, HIL's consolidated revenue profile will encompass half the revenues from markets outside India, which help insulate the top line from impact of slowdown in any specific geography.

Leading market position in domestic business lends revenue stability – HIL is a dominant player in the domestic asbestos FC roofing segment with a market share of 20-22%. The company has pan-India manufacturing presence, wide distribution and dealership network, and strong recall for its brands Charminar and Birla Aerocon. Backed by quality, solution-based approach, focussed branding efforts and strong distribution network, the company's products enjoy premium pricing over competing products. HIL's non-asbestos roofing product, Charminar Fortune, currently targeted towards institutional customers, is finding increasing acceptance. Hence, the company has invested in increasing its capacities by setting up a new dedicated plant for this product in Faridabad to meet the potential demand.

Financial risk profile characterised by stable earnings and cash flows – HIL's performance during the last two years (ending FY2019) was characterised by a healthy revenue growth of 14.4% and 15.8% at the standalone level, supported by sustained growth in the roofing and building segment. In 9M FY2020, the standalone revenues declined by 6.8% YoY in 9M FY2019 owing to a sharp 21% fall in the roofing segment revenues impacted by the weak rural demand. With the decline in revenue share of the high-margin roofing segment and sharp rise in input prices (namely asbestos fibre and cement) that could not be fully passed on to customers amid competition, HIL's operating margin (OPM) and net profit margin (NPM) moderated by 250 bps and 80 bps, respectively, in 9M FY2020. Its revenues at the consolidated level stood at Rs. 1,940.8 crore, supported by the full-period contribution of revenues from Parador. With Parador representing 46% of revenues, the company's consolidated OPM and NPM contracted to 9.8% and 4.2%, respectively, in 9M FY2020. The net margins were also affected by high interest and depreciation costs. Going forward, HIL's focus on increasing the Parador sales from the newer markets, utilisation of idle capacities, better absorption of fixed costs, streamlining inventory levels are aimed at improving the performance of the subsidiary.

Credit challenges

Moderation in coverage and capitalisation indicators post acquisition; steps being taken to reduce debt by monetisation of non-core assets – As the acquisition was funded primarily using debt, the consolidated gearing and total debt/OPBITDA moderated to 1.0x and 2.3x as of September2019 from 0.1x and 0.4x as of March 2018, respectively. Also, the company sourced most of its raw material requirements from Brazil, where it had favourable pricing and credit terms. Post the ban on asbestos mining in Brazil in November 2018, there has been a shift in material requirements, which has impacted the advantage HIL enjoyed on credit terms. This led to an increase in the utilisation of working capital limits which, although negligible in the last few years, resulted in a rise in the overall debt levels. However, the company took steps to reduce debt by monetisation of non-core assets. In Q4 FY2020, HIL sold and transferred its calcium silicate insulation products business (added ~2.6% of revenues) for a consideration of Rs. 80 crore as the same did not have synergy to its other core businesses. The proceeds are expected to be used for debt reduction, which shall support improvement in the capital structure and coverage metrics. In FY2021, HIL has plans of monetisation of certain land parcels to further pare its debt levels.

Vulnerability of demand to cyclicality in the end-user industries – HIL operates in a competitive environment, which coupled with the presence of substitute products, exerts pressure on pricing. Also, the demand for FC sheets is vulnerable to the cyclicality in end-user industries (namely construction, real estate and rural housing). While the fortune of domestic business is highly reliant on monsoons with Q1 setting the tone for the full year, the acquired entity Parador faces cyclicality in sales during the year due to the weak demand in Q2 and Q3. At present, with most of revenues in Parador derived from the European markets, it remains exposed to challenges in the European economic conditions.

Exposure of margins to fluctuations in raw material prices and exchange rates – HIL's margins are susceptible to variations in input prices, particularly asbestos fibre and cement. Its exports are minimal and imports accounted for approximately 12.8% of the standalone operating income (OI) in FY2019. Hence, the company's earnings remain exposed 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.

Liquidity position: Adequate

HIL's liquidity position is **adequate** with expected positive cash flow from operations, the current undrawn working capital limits of Rs. 40-50 crore and undrawn term loans of nearly Rs. 100.0 crore. In relation to these sources of cash, the company has planned capex of Rs. 80-90 crore and is due to make debt repayments of nearly Rs. 81.0 crore in FY2021, which shall be partially met using the proceeds from the sale of the insulation business. Overall, ICRA expects HIL to be able to meet its near-term debt obligation comfortably.

Rating sensitivities

Positive triggers – Upgrade in the long-term rating is unlikely in the next one year as the current debt-funded acquisition of Parador moderates the company's debt coverage metrics.

Negative triggers – Negative pressure on HIL's rating could arise due to weakening of the financial profile due to a sharper-than-anticipated decline in cash accruals or deterioration in debt indicators. Specific credit metrics that may result in a revision of rating include adjusted debt/OPBDITA above 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated

About the company

HIL Limited is a part of the C.K. Birla Group and is headquartered in Hyderabad. The company manufactures asbestos fibre cement 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 constructions and aerocon panels and boards that are used as partition in residential and commercial buildings. HIL also manufactures advanced polymer products (APP) in FY2014 for manufacturing chlorinated poly vinyl chloride (CPVC) and unplasticised PVC (UPVC) pipes, soil, water and rain (SWR) pipes and putty.

In September 2018, HIL completed the acquisition of a Germany-based flooring company Parador Holdings GmbH, Germany (Parador). It has 21 manufacturing facilities spread across the country and two manufacturing sites overseas (Austria and Germany) with a wide distribution network of more than 40 sales depots and eight sales offices. It has a network of 2,500 distributors and its dealership network consists of 6,500 sub-dealers. 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 (audited)

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	1,279.7	2,208.0
PAT (Rs. crore)	80.8	101.4
OPBDIT/OI (%)	11.7%	11.9%
RoCE (%)	20.2%	19.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	2.1
Total Debt/OPBDITA (times)	0.4	2.5
Interest Coverage (times)	38.7	10.5
DSCR	8.6	8.0

Source: Company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; DSCR: Debt Service Cover Ratio

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020) Type	Amount Rated	Amount Outstanding	Rating 27 Mar-2020	13 Dec-2019	Rating History for the Past 3 Years FY2019 23 Nov - 2018	17 Jul - 2018	14 Jun-2018	FY2018 26 Jul-2017	25 May-2017	FY2017 31 Aug 2016	13 Apr 2016
1	Unallocated	Long Term	109.00	-	-	-	[ICRA] AA-/ Stable	[ICRA] AA- &	[ICRA] AA-/ Stable	[ICRA] AA-/ Stable	[ICRA]A+/ Positive	[ICRA] A+/ Stable	[ICRA]A+ /Stable
2	Unallocated	Short Term	10.00	-	-	-	[ICRA] A1+	[ICRA] A1+&	[ICRA] A1+	-	-	-	-
3	Unallocated	Long term/ Short Term	225.00	-	[ICRA]AA- (Stable)/[ICRA]A1+	[ICRA]AA- (Stable)/[ICRA]A1+	-	-	-	-	-	-	-
4	Commercial Paper	Short Term	75.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+&	[ICRA] A1+	[ICRA] A1+	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-Term/Short-Term: Unallocated	-	-	-	225.0	[ICRA]AA-(Stable)/[ICRA]A1+
-	Commercial paper	-	-	7-365 days	75.0	[ICRA]A1+

Source: HIL Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
HIL Limited	100.00%	Full Consolidation
HIL International GmbH	100.00%	Full Consolidation
Parador Holding GmbH	100.00%	Full Consolidation
Parador Parkettwerke GmbH	100.00%	Full Consolidation
Parador (Shanghai) Trading Co Ltd	50.00%	Equity method

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

K Srikumar
+91 4445964318
k.srikumar@icraindia.com

Ravina R Haran
+91 44 4596 4311
ravina.haran@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:

+91-9354738909 (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) 2556 0194/ 6606 9999