HSIL Limited

March 03, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	1,205.50 (Enhanced from 1,194.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	230.00 (Enhanced from 200.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**1,435.50 (Rs. One Thousand Four Hundred Thirty-Five Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of HSIL Limited (HSIL) continues to derive strength from its experienced promoters, its established track record of operations, wide distribution network along with long term supply contract for the building products with its group company Brilloca Ltd which has recognized brand name in sanitary ware segment and established relations with its institutional clients in the container glass segment. The ratings also factor in the diversified presence in the building products and packaging products segments with expansion done by the group in the CPVC & UPVC pipes segment and security caps & closures to complement its sanitary ware & container glass segment respectively & its comfortable financial risk profile.

These rating strengths are, however, partially off-set by moderation in its capital structure due to ongoing debt funded capital expenditure, susceptibility of HSIL's financial profile to raw material and fuel price fluctuation risk and foreign exchange fluctuation risk.

HSIL has not sought any moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020.

Key rating Sensitivities

Positive Factors: *Factors that could lead to positive rating action/upgrade*

- Increase in Total operating income by more than 20% on a sustained basis and improvement in its PBILDT Margin to 18% or more going ahead on a sustained basis.
- Ability of the company to lower its TD/PBILDT to below 3x on a sustained basis.

Negative Factors: *Factors that could lead to negative rating action/downgrade*

- Increase in operating cycle of more than 125 days on a sustained basis
- Deterioration in its capital structure on a sustained basis (Overall Gearing of more than 1.20x in the projected period) on account of higher than projected debt funded capex or increase in its working capital borrowings.
- Total debt to PBLIDT above 4.5x on a sustained basis
- PBLIDT interest coverage below 3x

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

HSIL is promoted by Dr. R K Somany who is the Chairman and Managing Director of the company and has an extensive experience of around 65 years in the industry. Dr. R K Somany is supported by his son Mr Sandip Somany who actively manages the overall operations of the company. Mr. Sandip Somany has around 35 years of experience in the ceramics and glass industry. The extensive experience of the promoter in the business has helped in developing the Hindware and AGI brand and also establishes the relationship with their customers and suppliers. The board of the company is broad-based and has several independent professional members having vast industry experience in diverse backgrounds. The operations of the company are managed by well qualified and experienced senior management team.

Long track record with strong market position

HSIL, incorporated in February 1960 to introduce vitreous china ceramic sanitary ware in India and diversified into the manufacture of glass containers through the acquisition of Associated Glass Industries Limited (AGI) in 1981. HSIL holds a significant market share in all the business verticals of its presence. Post Demerger, HSIL is engaged in the manufacturing of packaging products and Buildings Products (for its group company Brilloca Ltd). Further, HSIL is one of the leading glass container manufacturers in India. The group is also a leading manufacturer of sanitaryware products in India and is the second largest faucet players in the domestic market. The production of sanitary ware & faucets still lies with HSIL, its marketing, Sales & distribution have however been vested with Brilloca Ltd post demerger effective from appointment date of April 01, 2018.

Diversified product portfolio along with established presence in all segments

Post Demerger of HSIL Limited, Marketing & Distribution of Consumer Products and Retail businesses were transferred to SHIL while Marketing & Distribution Business of Building Products was transferred to Brilloca. The manufacturing of Building Products and packaging products continues to remain with HSIL Ltd. HSIL Ltd. is involved in Manufacturing of building products such as sanitaryware, faucets, pipes and fittings, etc.; and Manufacturing and supply of packaging products such as glass containers, PET bottles and products and security caps and closures.

Company’s product portfolio in the building products division includes range of sanitaryware, faucets, plastic pipe and fittings, wellness products and other allied products. The company in FY19 had forayed into the plastic pipes and fittings business to complement its existing sanitaryware and faucet businesses. Commercial production at the fully automated plastic pipes and fittings manufacturing plant in Telangana started in August 2018.

Also, the company built a wide ranging portfolio of packaging products for both glass and PET, along with synergic product business of security caps and closures. Company is positioned as one of the significant glass container manufacturers in the country, offering packaging solutions to multiple sectors.

During FY20 (refers to period from April 01 to March 31), manufacturing of Building products constituted around 33% (PY: 31%) of its gross sales while the balance is contributed by packaging product division.

Stable Financial Risk Profile

In FY20, the company has registered an income of Rs.1873.55 crore as compared to Rs.1618.83 crore in FY19. The company has shown a growth of 16% in total operating income due to increase in demand from all the segments.

The PBLIDT margin of the company stood at 15.24% in FY20 as compared to 11.45% in FY19. The subdued performance in the PPD (packaging product division) segment in FY19 was also due to a major overhaul in one of its glass furnaces. The increase in margin in FY20 is a factor of the enhanced capacity utilization vis-à-vis FY19 and also due to increased realizations in the packaging product division. The EBIT margins from packaging product division increased from 8.25% in FY19 to 12.36% in FY20.

The company’s PAT and GCA in FY20 stood at Rs.48.42 crore (PY: Rs.15.27 crore) and Rs.204.93 crore (PY: 145.00 crore) respectively.

The overall gearing as on March 31, 2020 stood at 0.80x as compared to 0.71x as on March 31, 2019. The increase in overall gearing is due to increase in the long term loans and working capital borrowings. The total debt as on March 31, 2020 stood at Rs.1065.18 crore as compared to Rs.950.26 crore as on March 31, 2019. The increase in debt is due to the capex for increasing its capacity at pipes and faucet division and also due to regular capex improve its operational efficiency including backward integration in Glass and sanitary ware division. Interest coverage as on March 31, 2020 stood at 3.89x as compared to 3.14x as on March 31, 2019.

In 9MFY21 (UA, refers to period from April 01 to Dec 31), the company reported a decline of ~12% in total operating income and stood at Rs.1242.43 crore (Rs.1411.24 crore in 9MFY20). Inspite of the sales declining by 12% y-o-y, the company reported PAT of Rs.55.04 crore which is higher as compared to Rs.45.02 crore reported in 9MFY20. The decline in sales is majorly on account COVID-19 lockdown which impacted the sales and profitability in Q1FY21 and the revival of demand was seen from July 2020 onwards.

The company at their Board meeting in September 2020 approved the company’s buy-back of equity shares from open market through Stock exchanges for upto Rs.70 crore at a price not exceeding Rs.105/- per equity shares. In this regard, the company has bought back 75.99 lakh equity shares at an average price of Rs.84.12 per equity share and accordingly it has deployed Rs.63.92 crore. After the closure of buyback, the shareholding of promoters has increased from 53.91% to 60.24% as on December 31, 2020. The entire buy back of the shares was funded by the tax refund of ~Rs 60 crore received by the company in Q2FY21.

Liquidity: Adequate

The company’s liquidity position stands adequate. Cash and Bank Balance of the company stood at Rs. 44.74 crore as on March 31, 2020 while as on Dec 31, 2020 it stood at Rs.28.20 crore. The repayment obligations for FY21 are Rs. 52.17 crore (Rs. 32.83 crore was already being paid till Dec 31, 2020). However, in next few years it has high repayment obligations therefore the ability of the company to maintain its profitability will be a key rating monitorable. Current ratio of the company stood at 1.37 as on March 31, 2020 (1.17x as on March 31, 2019) and Operating Cycle of the company stood at 97 days for FY20 (153 days for FY19). The improvement in operating days is due to improvement in collection period and reduction in inventory days. The average working capital utilization for 12 months ending on September 30, 2020 stood at 56.22% leaving sufficient liquidity buffer. The company has also not taken any moratorium from its lenders and is repaying as per schedule. Further, it has not taken any Covid funding for its operations.

Key Rating Weaknesses

Ongoing Debt Funded Capex
HSIL has undertaken capex pertaining to the establishment of new manufacturing facility as well expansion of existing manufacturing facility which has resulted in the moderation of the capital structure of HSIL. During FY20, it has done capex of around Rs.137.70 crore while till 9MFY21, the capex undertaken was of Rs.81 crore out of the planned capex for FY21 of Rs.180 crore. For the capex in FY20, the additional debt of Rs.56 crore was taken while remaining capex was done through internal accruals. The company is continuously doing capex to increase its capacities for manufacturing of faucet and pipes. Further, it plans to undertake the capex of Rs.180 crore in FY21. This capex which is being done at Bhongir, Telangana is for the specialty glass product which will have capacity of 150 Tons per day (TPD) and for the same the company will invest around Rs.230 crore funded in a debt equity ratio of 2.33:1 in next 2 years. It expects to commence operations for this project from April 2022.
However, the ability of HSIL to successfully execute its capital expenditure projects without any cost & time overrun and derive the projected returns without deteriorating its capital structure would be the key rating sensitivities going forward.

Exposure to material cost and power price fluctuation
Soda Ash which is a major raw material for manufacturing Container Glass has been the key contributor to the raw material cost. Power and Fuel Cost is another significant cost-item for the company. Company is regularly doing capex to reduce the power cost by substitution of high cost fuel (furnace oil) by alternate fuel i.e. pet coke, to fire the glass furnaces. The company has to pass-on the increase in costs to consumers either fully or partially but with a lag, depending upon the demand and the competitive scenario; nevertheless, managing the fluctuation in prices of inputs shall remain critical.
High crude oil prices and adverse movement of foreign currency has also impacted the profitability of the company during FY20. Further, the prices of crude oil remains volatile over the past few years and any upward movement in the crude oil prices can keep the operating margins of the company under pressure and can have a negative impact on the profitability margins of the company. Thus, managing the fluctuation in prices of inputs shall remain critical.

Foreign Currency Risk
With limited exports relative to imports along-with foreign currency borrowings, exposes HSIL to exchange rate fluctuation risks. Although, HSIL partially hedges its forex exposure, in the absence of complete natural hedge and un-hedged forex position, HSIL remains exposed to risks emanating from volatility in exchange rate. Although, HSIL has a practice to hedge its forex exposure from time to time to mitigate the risk attached with foreign currency fluctuation risk. The company is having two foreign currency loans amounting Rs. 280.31 crore as on Oct 31, 2020 (Rs. 294.00 crore as on March 31, 2020). Further, company had booked forward contracts for hedging purpose. The amount hedged for ECB loans as on Sep 30, 2020 stood at Rs.132.84 crore. The company has booked loss on foreign exchange fluctuation of Rs.26.13 crore in FY20 (this is majorly unrealized) as compared to loss of Rs.7.77 crore in FY19. As on March 31, 2020, the company had unhedged foreign currency exposure of Rs.192.56 crore.

Industry outlook
The ceramic industry over the years has been modernizing through new innovations in product profile, quality and design to emerge as a modern, world class industry, ready to take on global competition.
Though there are a number of large companies in the ceramics sector, small and medium enterprises (SMEs) account for more than 50% of the total market in India. Initiatives such as Swachh Bharat Abhiyan (SBA), building of smart cities, development of industrial corridors and housing for all schemes will drive the growth in the near future.
The imposition of nationwide lockdown due to Covid-19 brought the construction activities to a complete halt. New projects were postponed and delivery of on-going projects was delayed. This had a severe impact on the demand of ceramic tiles and sanitaryware that services the real estate industry as part of building and construction materials. The replacement demand of tiles and sanitaryware was also affected owing to fears of virus contraction and job losses due to pandemic.
Going forward the overall industry is expected to see growth due to various growth drivers like government initiatives for infrastructure development (Swachh Bharat Abhiyan, Development of 100 Smart cities, Housing for all by 2022, etc) and favorable demographics expected to drive ceramics, sanitary ware and bathroom fittings industry in future.

India's glass container market is expected to grow at 6.8% CAGR during 2020-25. The low per capita consumption in the Indian market provides significant growth opportunities, in addition to rising consumerism, disposable incomes and urbanisation. Moreover, the supportive macro trends like growing alcohol and beer consumption and plastic ban in certain states are further going to strengthen the demand.

Analytical approach: Standalone. The ratings however factor in the linkages with its group companies (SHIL & Brilloca rated CARE A+; Stable/A1+) owing to common promoters and strong business & operational linkages with them.

Applicable criteria
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology - Manufacturing Companies]
[Criteria for Short Term Instruments]
[Liquidity Analysis of Non-financial sector entities]
[Financial Ratios – Non financial Sector]
[Rating Methodology: Notching by factoring linkages in Ratings]

About the Company
HSIL, incorporated in February 1960, was promoted by Kolkata-based Somany brothers and, currently, the management control vests with Dr. R K Somany. The company was originally incorporated as Hindustan Twyfords Ltd in collaboration with Twyfords Ltd., UK, to introduce vitreous china ceramic sanitaryware in India. It was renamed as Hindustan Sanitaryware & Industries Ltd. in 1967 and renamed to the present one in 2009. HSIL diversified into the manufacture of glass containers through the acquisition of Associated Glass Industries Limited (AGI) in 1981. PET bottles business was added through the acquisition of Garden Polymers Private Limited (GPPL) in 2011. Packaging Products Division further expanded its business and launched counterfeit-resistant caps and closures under the brand 'AGI Clozure'. During FY18, the Board approved a scheme of arrangement for demerger of the Company's businesses. The objective of the demerger is to unlock value by creating distinct entities for three of its business undertakings, thereby ensuring sharper focus on and better alignment to its customers. The Marketing and Distribution business of Consumer Products Division and Retail Division into a separate entity, Somany Home Innovation Limited (SHIL), and the Marketing and Distribution business of Building Products Division into a separate entity, Brilloca Limited (Brilloca), each as a going concern. The scheme has been approved by the Hon'ble Kolkata Bench of National Company Law Tribunal vide its order dated June 26, 2019. The scheme was effective from the Appointment date i.e. April 01, 2018.
HSIL is having 11 manufacturing facilities across the country. HSIL is having two sanitaryware plants at Bahadurgarh in Haryana and Bibinagar in Telangana; two faucet plants at Kaharani and Bhiwadi in Rajasthan; and One plastic pipes and fittings plant at Sangareddy in Telangana. Also, in the Packaging division, company is having two glass container facilities at Sanathnagar and Bhongir in Telangana, three PET bottles and products facilities at Selaqui in Uttarakhand, Dharwad in Karnataka, and Sangareddy in Telangana and one security caps and closures facility at Sangareddy in Telangana.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY19 (A) Post Demerger	FY20 (A)
Total operating income	1637.81	1873.55
PBILDT	209.01	285.58
PAT	15.27	48.42
Overall gearing (times)	0.75	0.86
Interest coverage (times)	3.54	3.89

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Mar 2028	747.50	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	458.00	CARE A+; Stable
Non-fund-based - ST-BG/LC	-	-	-	230.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	747.50	CARE A+; Stable	-	1)CARE A+; Stable (27-Feb-20)	1)CARE A+; Stable (28-Jan-19) 2)CARE A+; Stable (20-Nov-18) 3)CARE AA- (CWD) (04-Oct-18)	1)CARE AA- (CWD) (09-Feb-18) 2)CARE AA- (CWD) (21-Nov-17) 3)CARE AA-; Stable (27-Apr-17)
2.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)CARE A1+ (27-Feb-20)	1)CARE A1+ (28-Jan-19) 2)CARE A1+ (20-Nov-18) 3)CARE A1+ (CWD) (04-Oct-18)	1)CARE A1+ (CWD) (21-Nov-17) 2)CARE A1+ (01-Aug-17) 3)CARE A1+ (27-Apr-17)
3.	Fund-based - LT-Cash Credit	LT	458.00	CARE A+; Stable	-	1)CARE A+; Stable (27-Feb-20)	1)CARE A+; Stable (28-Jan-19) 2)CARE A+; Stable (20-Nov-18) 3)CARE AA- (CWD) (04-Oct-18)	1)CARE AA- (CWD) (21-Nov-17) 2)CARE AA-; Stable (27-Apr-17)
4.	Non-fund-based - ST-BG/LC	ST	230.00	CARE A1+	-	1)CARE A1+ (27-Feb-20)	1)CARE A1+ (28-Jan-19) 2)CARE A1+ (20-Nov-18) 3)CARE A1+ (CWD) (04-Oct-18)	1)CARE A1+ (CWD) (21-Nov-17) 2)CARE A1+ (27-Apr-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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