

HSIL Limited

January 11, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	867	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	250	CARE A1+ (A One Plus)	Reaffirmed
Total	1,117 (Rupees One Thousand One Hundred Seventeen crore only)		
Commercial Papers*	250 (Rupees Two Hundred Fifty crore only)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

**carved out of sanctioned working capital limits of the company.*

Detailed Rationale

The ratings derive strength from the experience of the promoters, established track record, wide distribution network with recognized brand name in sanitary ware and established relations with institutional clients in the container glass segment. The ratings also continue to derive strength from the diversified presence in the building products and packaging products segments, consistent growth in the faucet ware segment, comfortable liquidity position, healthy capital structure and comfortable debt coverage indicators. These ratings are, however, partially offset by susceptibility to raw material and fuel price fluctuation risk, foreign exchange fluctuation risk and high competition in the industry. The reaffirmation of the ratings also factor in the ongoing debt funded capital expenditure undertaken by the company as well as the growth in the consumer durables product segment and proposed merger of the retail business of Hindware Home Retail Private Limited (HHRPL) in HSIL. Execution of the capital expenditure projects and deriving the projected returns along with maintaining a comfortable capital structure are the key rating sensitivities.

Detailed description of the key rating drivers

HSIL is promoted by Mr R K Somany who is the Chairman and Managing Director of the company and has an extensive experience of over 60 years in the industry. The board of the company is broad-based and has several independent professional members having vast industry experience in diverse

2Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

backgrounds. The operations of the company are managed by well qualified and experienced senior management team.

HSIL has well-diversified operations which includes sanitaryware, faucets, wellness and other allied products, as well as consumer products under Building Products Division (BPD), while the Packaging Products Division (PPD) includes container glass and pet bottle business. The company has major focus on the retail market for building products and has wide retail spread with presence in more than 50 cities across India. Also, the company has more than 490 institutional clients under the packaging division.

HSIL's sanitary-ware brand '*Hindware*' is one of the oldest and well known brands and is the market leader in the segment. HSIL also manufactures faucets and is the third largest player in the segment. Also, under the packaging division, through container glass manufacturing, the company has a presence in liquor, food and beverages as well as pharmaceutical sectors. HSIL is the second largest player in the container Glass industry in terms of revenue and capacity.

HSIL income from operation has increased by 4.43% in FY16 to Rs.1,941.54 crore. The PBILDT margins have marginally declined to 17.38% in FY16 vis-à-vis 18.48% in FY15. The decline in the PBILDT margins in FY16 is majorly on account of decline in margins in the BPD division mainly due to setting-up of consumer products division, increasing proportion of income from faucets (with lower PBILDT margins) and increase in marketing expenditure. However, the margins in the packaging product division have improved due to lower fuel cost and better realization with increase in overall operational efficiency. The company has a comfortable capital structure with overall gearing of 0.53x as on March 31, 2016 (PY: 0.69x).

Soda ash is a major raw material for manufacturing of container glass has been the key contributor to the raw material cost. Also, power and fuel cost is another significant cost-item for the company. The company has the policy 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.

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, however, in the absence of natural hedge and un-hedged forex position, HSIL remains exposed to foreign exchange fluctuation risks.

HSIL is undertaking capex pertaining to the establishment of new manufacturing facility as well expansion of existing manufacturing facility. The company envisages capex of around Rs.319 crore in the current financial year (FY17), while capex of around Rs.114 crore in FY18. The same is envisaged to be majorly funded through new debt availment in FY16 and FY17.

The Board of Directors of HSIL has approved the demerger of the retail business of HHRPL (wholly owned subsidiary of HSIL) and vesting the same in HSIL on a going concern basis with effect from

April 01, 2015. The merger of the retail business of HHRPL may have an impact over the profitability margins and capital structure of the company.

Analytical Approach – Standalone

Applicable Criteria

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's Methodology for Short-term Instruments](#)

[CARE's Methodology for manufacturing companies](#)

[Financial Ratios – Non Financial Sector](#)

Company Background

HSIL (CIN: L51433WB1960PLC024539), incorporated in February 1960, was promoted by Kolkata-based Somany brothers and, currently, the management control vests with Mr R K Somany faction. HSIL operates in two divisions, namely, Building Products (BPD; includes sanitary ware, faucet ware and consumer durables) and Packaging Products (PPD; includes container glass) with about 52% of gross sales in FY16 (refers to the period April 1 to March 31) from BPD while PPD accounted for 48% of the gross sales in FY16.

The company has eight manufacturing units spread across Haryana (sanitary-ware), Telangana (container glass and sanitary-ware), Rajasthan (faucets), Karnataka (PET Bottles) and Uttarakhand (PET Bottles). The company also undertakes trading of consumer durables including Kitchen hoods and chimneys, water heaters, air purifiers and water purifiers.

During FY16, HSIL reported income from operations of Rs.1,941.54 crore and PAT of Rs.116.70 crore vis-à-vis income from operations of Rs.1,859.12 crore and PAT of Rs.104.15 crore in FY15. During H1FY17 (refers to the period April 01 to September 30), the company has booked a total income of Rs.1,012.91 crore with PAT of Rs.57.97 crore vis-à-vis total income of Rs.885.47 crore with PAT of Rs.48.53 crore in H1FY16.

Status of non-cooperation with previous CRA: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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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	-	-	July 2024	367.00	CARE AA-; Stable
Fund-based - LT-Cash Credit	-	-	-	500.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	250.00	CARE A1+
Commercial Paper	-	-	7 days to 364 days	250.00	CARE A1+

Annexure-2

Rating History (Last three years)

Sr. No.	Name of the Instrument/Bank Facilities	Type	Current Ratings (January 11, 2017)		Chronology of Rating history			
			Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund Based - LT-Term Loan	LT	367.00	CARE AA-; Stable	1)CARE AA- (07-11-2016)	1)CARE AA- (18-12-2015) 2)CARE A+ (09-04-2015)		1)CARE A+ (27-02-2014) 2)CARE A+ (13-01-2014)
2.	Commercial Paper	ST	250.00	CARE A1+	1)CARE A1+ (07-11-2016)	1)CARE A1+ (18-12-2015) 2)CARE A1+ (01-07-2015) 3)CARE A1+ (09-04-2015)	1)CARE A1+ (30-09-2014)	1)CARE A1+ (13-01-2014)
3.	Fund Based - LT-Cash Credit	LT	500.00	CARE AA-; Stable	1)CARE AA- (07-11-2016)	1)CARE AA- (18-12-2015) 2)CARE A+ (09-04-2015)		1)CARE A+ (27-02-2014) 2)CARE A+ (13-01-2014)
4.	Non-Fund Based - ST-BG/LC	ST	250.00	CARE A1+	1)CARE A1+ (07-11-2016)	1)CARE A1+ (18-12-2015) 2)CARE A1+ (09-04-2015)		1)CARE A1+ (27-02-2014) 2)CARE A1+ (13-01-2014)

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