HSIL Limited

February 27, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Remarks**
Long term Bank Facilities	1194.00 (1309.40)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	200.00 (285.00)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**1394.00 (Rupees one Thousand Three Hundred Ninety Four Crore only)**		
Commercial Paper (CP) Issue*	**100.00 (300.00) (Rupees One Hundred crore only)**	**CARE A1+ (A One Plus)**	**Reaffirmed**

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

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities and commercial paper issue of HSIL Limited (HSIL) continues to derive strength from its experienced promoters, its established track record of operations, wide distribution network with recognized brand name in sanitary ware segment and established relations with 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 HSIL 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 slight 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.

Key rating Sensitivities

Going forward, HSIL's ability to attain the profitable growth without any adverse impact on its capital structure, effective management of forex risk and volatility in fuel prices and successful implementation of the planned capex within envisaged cost and time, would be the key rating sensitivities. Further, going forward successful execution of the agreement with the group company Brilloca Ltd for supply of building products shall also be critical.

Positives

- Increase in TOI by more than 20% on a sustained basis and improvement in its PBILDT Margin going ahead
- Ability of the company to manage its capital structure with increase in scale of operations and planned Capex

Negatives

- Any significant increase in its operating cycle
- 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.

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 64 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 34 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.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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. HSIL 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.

Presence in Building Products Division and Packaging products division with diversified products

Post Demerger of HSIL Limited, Marketing & Distribution of Consumer Products and Retail businesses transferred to SHIL; and Marketing & Distribution Business of Building Products transferred to Brilloca. While the manufacturing of Building Products and packaging products continues to remains 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 including range of sanitaryware, faucets, plastic pipe and fittings, wellness products and other allied products. Company forayed into the plastic pipes and fittings business in FY19 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, 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.

Established and diversified clientele in the Packaging Product division & Agreement with Brilloca for the supply of building products

Company packaging products cater to a large customer base with a product range covering flint, amber and green containers. Company's products find use in many critical packaging applications. Within the domain of PET bottles and products business, company's products cater to industries such as pharmaceuticals and alcoholic beverages in India and have started exporting to Europe, South East Asia and East African countries. Company is selling Packaging products as a Brand Portfolio. Under AGI Brand for Glass Containers, GP Brand for PET bottles and plastic products and AGI Clozures for security Caps and Closures.

BPDM Undertaking; business of branding, marketing, sales, distribution, trading etc of various building products (like Sanitaryware Products, faucets, shower enclosures, CPVC, UPVC Pipes and fittings or other accessories/ allied products) of the HSIL Limited had transferred to Brilloca Limited. Now, as per agreement dated Oct 24, 2019, HSIL Limited has entered into contract with Brilloca Limited for the supply of building products as per the specifications of Brilloca Limited at the price mutually agreed by both the parties. As of now, HSIL is supplying its entire manufacturing for sanitaryware segments to Brilloca as HSIL has manufacturing facilities according to the marketing needs of Brilloca.

Stable Financial Risk Profile

HSIL Ltd (Post Demerger) registered an income of Rs. 1637.81 crore at a PBILDT Margin of 12.76% as against income of Rs. 2719.22 crore of combined HSIL (Pre Demerger) at a PBILDT Margin of 12.09% in FY19. Revenue from marketing and sale of Consumer Products Division and Retail Division is transferred to SHIL and revenue corresponds to marketing and sale of building products division is transferred to Brilloca Limited. Post de-merger, the revenue corresponds to manufacturing of Building Product division and sale to Brilloca Ltd. and the manufacturing and sale of packaging product division continues to remains with HSIL Limited. Revenue from Building Product Manufacturing division is around 31% of its gross sales and revenue from packaging product division is around 68% of its gross sales. Total Operating income of the company, post demerger had increased from Rs. 1270.62 crore (estimated) in FY18 to Rs. 1637.81 crore in FY19 (A) at a healthy growth rate of around 29%, owing to increased sales in both PPD and BPD segments.

GCA of the company (Post demerger) stood at Rs. 152.28 crore for FY19, which is equivalent to 60.35% of GCA of the combined HSIL (Pre demerger) for FY19 (GCA of the company (pre demerger) stood at Rs. 252.34 crore in FY19 and Rs. 192.03 crore in FY18).

Post Demerger, Company has a comfortable capital Structure marked by Overall Gearing of 0.75x as on March 31, 2019. Debt Service Coverage Indicators also remains comfortable with Interest Coverage Ratio of 3.54x (post demerger) as compared to 3.76x (pre demerger) for FY19.

Total Operating Income of the company increased from Rs. 1149.20 crore for 9MFY19 (post scheme) to Rs. 1411.24 crore in 9MFY20. Total debt of the company increased from Rs. 723.15 crore as on March 31, 2019 to Rs. 773.83 crore as on Dec 31, 2019 as company is doing capex for increasing its capacity at pipes and faucet division and also involved in doing regular capex and capex to improve its operational efficiency including backward integration in Glass and sanitary ware division.

Liquidity: Adequate

The liquidity position of the HSIL remains adequate as marked by sufficient unavailed limits in the sanctioned fund based and non-fund based limits of the company and healthy cash accruals generated by the company for meeting the repayment obligations and planned capex funded through internal accruals. GCA of the company for 9MFY20 stood at Rs. 174.83 crore as against GCA of Rs. 152.28 crore in FY19 (post demerger). The company is having scheduled repayment of Rs. 19.92 crore in FY20 and Rs. 53.04 crore in FY21. The company is having cash and bank balance of Rs. 35.51 crore as on March 31, 2019 (post demerger). Interest Coverage Ratio of the company remains comfortable and stood at 3.54x for FY19 (post demerger). Current ratio of the company stood at 1.17x as on March 31, 2019 (post demerger).

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 FY19, company has done a capex of around Rs. 336 crore (including CWIP), which was majorly financed through Long term debt of Rs. 250.13 crore. Company is continuously doing Capex to increase its capacities for manufacturing of faucet and pipes. Further, company has done Capex in AGI Glass includes repairment and refurbishments of furnace of around Rs. 100 crore in FY19 and regular capex in glass segment pertains to improvement in operational efficiency including backward and forward integration. The expansion, especially in CPVC and UPVC pipes are primarily to utilize its brand more effectively. However, the ability of HSIL to successfully execute its capital expenditure projects without any cost & time overrun and derive the projected returns while maintaining the envisaged 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 FY19. Because of the international prices of crude going up, price of all the fuels whether LPG, pet coke etc have increased and hence a margin drop in the Packaging Product Division in H1FY19.

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. 282.74 crore as on Sep 30, 2019. Further, company had booked forward contracts of Rs. 141.37 crore (50% of foreign currency loan), payable at Rs. 70 per USD. And also, the 1st half yearly repayment of remaining Rs. 141.37 crore is due in December, 2021. Further, the company is in process of booking forward contracts for remaining part.

Analytical approach: Standalone. The ratings however factor in the support from its group companies (SHIL & Brilloca) owing to common management and strong business & operational linkages with them.

Applicable criteria

CARE's Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
Rating Methodology – Manufacturing Companies
CARE's methodology for financial ratios (Non Financial sector)
Rating Methodology- Consolidation and 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'.Company subsequently widened its product basket with a range of bathroom and kitchen appliances products and also expanded in the retail business of Speciality Home Interior Solutions in 2007 through a wholly owned subsidiary, called Hindware Home Retail Pvt. Ltd. (HHRL). Its first store commenced operations in May 2008 under the 'EVOK' brand. HSIL Limited is among India's top 500 companies as listed in the 'Fortune India 500' 2018 list.

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.

The manufacturing continues to remain with the residual HSIL. Manufacturing of building products such as sanitary ware, faucets, pipes and fittings, etc.; Manufacturing of certain specified consumer products such as SKD facility of water heaters etc., and Manufacturing and supply of packaging products such as glass containers, PET bottles and products and security caps and closures remains with HSIL Limited.

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)	FY18 (A) Pre Demerger	FY19 (A) Pre Demerger	FY19 (A) Post Demerger
Total operating income	2281.47	2719.22	1637.81
PBILDT	273.89	328.73	209.01
PAT	74.76	70.47	15.27
Overall gearing (times)	0.84	0.83	0.75
Interest coverage (times)	4.91	3.76	3.54

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	-	-	FY 2028	794.00	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	400.00	CARE A+; Stable
Non-fund-based - ST-BG/LC	-	-	-	200.00	CARE A1+
Commercial Paper	-	-	-	100.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	794.00	CARE A+; Stable	-	1)CARE A+; Stable (28-Jan-19) 2)CARE A+; Stable (20-Nov-18) 3)CARE AA- (Under Credit watch with Developing Implications) (04-Oct-18)	1)CARE AA- (Under Credit watch with Developing Implications) (09-Feb-18) 2)CARE AA- (Under Credit watch with Developing Implications) (21-Nov-17) 3)CARE AA-; Stable (27-Apr-17)	1)CARE AA-; Stable (09-Mar-17) 2)CARE AA-; Stable (11-Jan-17) 3)CARE AA- (07-Nov-16)
2.	Commercial Paper	ST	100.00	CARE A1+	-	1)CARE A1+ (28-Jan-19) 2)CARE A1+ (20-Nov-18) 3)CARE A1+ (Under Credit watch with Developing Implications) (04-Oct-18)	1)CARE A1+ (Under Credit watch with Developing Implications) (21-Nov-17) 2)CARE A1+ (01-Aug-17) 3)CARE A1+ (27-Apr-17)	1)CARE A1+ (09-Mar-17) 2)CARE A1+ (11-Jan-17) 3)CARE A1+ (07-Nov-16)
3.	Fund-based - LT-Cash Credit	LT	400.00	CARE A+; Stable	-	1)CARE A+; Stable (28-Jan-19) 2)CARE A+; Stable (20-Nov-18) 3)CARE AA- (Under Credit watch with Developing Implications) (04-Oct-18)	1)CARE AA- (Under Credit watch with Developing Implications) (21-Nov-17) 2)CARE AA-; Stable (27-Apr-17)	1)CARE AA-; Stable (09-Mar-17) 2)CARE AA-; Stable (11-Jan-17) 3)CARE AA- (07-Nov-16)
4.	Non-fund-based - ST-BG/LC	ST	200.00	CARE A1+	-	1)CARE A1+ (28-Jan-19) 2)CARE A1+ (20-Nov-18) 3)CARE A1+ (Under Credit watch with Developing Implications) (04-Oct-18)	1)CARE A1+ (Under Credit watch with Developing Implications) (21-Nov-17) 2)CARE A1+ (27-Apr-17)	1)CARE A1+ (09-Mar-17) 2)CARE A1+ (11-Jan-17) 3)CARE A1+ (07-Nov-16)

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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