HSIL Limited

April 27, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	936.63 (enhanced from 915.63)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	250	**CARE A1+ (A One Plus)**	Reaffirmed
Total Facilities	**1,186.63 (Rupees One thousand One hundred Eighty Six crore and Sixty Three lakh 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 working capital limits of the company

Detailed Rationale & Key Rating Drivers

The ratings assigned to the facilities of HSIL Limited (HSIL), continue to 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 factor in 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 rating strengths are, however, partially off-set 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.

The ability of HSIL to successfully execute its capital expenditure projects and derive the projected returns, maintaining its market position in the sanitary ware segment while growing in faucet ware, consumer durables and container glass segment along with maintaining a comfortable capital structure would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

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

Diversified business operations with wide distribution network: 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.

Strong brand name and established client relationship for institutional business: 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

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

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.

Comfortable financial profile: HSIL income from operation has increased by 4.43% in FY16 (refers to the period April 01 to March 31) 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 0.51x as on March 31, 2016 (PY: 0.69x).

Key Rating Weaknesses

Exposure to raw material cost and fuel price fluctuation: 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.

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

Ongoing debt funded capex: 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.

Proposed merger of the retail business of HHRPL: 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 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.

Competitive nature of industry: HSIL currently has a major presence in the building products (pertains to sanitary ware and faucet ware products) and container glass segments. The sanitary ware and faucet ware industry are significantly fragmented with high contribution from the unorganized sector. Furthermore, the competition has been intensifying with domestic and international players ramping up their operations. Also, the subdued real estate supply has impacted the building products market in the near term. HSIL's other major segment viz container glass has been facing intense competition due to surplus capacities available in the market.

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
Rating Methodology: Factoring Linkages in Ratings
Financial Ratios – Non Financial Sector

About the Company

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 and pet bottles) 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 9MFY17 (refers to the period April 01 to December 31), the company has booked a total income of Rs.1,534.31 crore with PAT of Rs.84.48 crore vis-à-vis total income of Rs.1,415.74 crore with PAT of Rs.88.45 crore in 9MFY16.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	December 2026	436.63	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 – 364 days	250.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	436.63	CARE AA-; Stable	-	1)CARE AA-; Stable (09-Mar-17) 2)CARE AA-; Stable (11-Jan-17) 3)CARE AA- (07-Nov-16)	1)CARE AA- (18-Dec-15) 2)CARE A+ (09-Apr-15)	-
2.	Commercial Paper	ST	250.00	CARE A1+	-	1)CARE A1+ (09-Mar-17) 2)CARE A1+ (11-Jan-17) 3)CARE A1+ (07-Nov-16)	1)CARE A1+ (18-Dec-15) 2)CARE A1+ (01-Jul-15) 3)CARE A1+ (09-Apr-15)	1)CARE A1+ (30-Sep-14)
3.	Fund-based - LT-Cash Credit	LT	500.00	CARE AA-; Stable	-	1)CARE AA-; Stable (09-Mar-17) 2)CARE AA-; Stable (11-Jan-17) 3)CARE AA- (07-Nov-16)	1)CARE AA- (18-Dec-15) 2)CARE A+ (09-Apr-15)	-
4.	Non-fund-based - ST-BG/LC	ST	250.00	CARE A1+	-	1)CARE A1+ (09-Mar-17) 2)CARE A1+ (11-Jan-17) 3)CARE A1+ (07-Nov-16)	1)CARE A1+ (18-Dec-15) 2)CARE A1+ (09-Apr-15)	-

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