

Hindware Home Innovation Ltd — 08 Apr 2025 Credit Rating Summary

Section	Details
Agency	CARE Ratings Ltd.
Rating Change	A → A- (Downgraded by 1 notch); A1 → A2+
Outlook	Rating Watch with Developing Implications (RWD) (Previously: Stable)
Key Drivers of Change	<ol style="list-style-type: none"> Structural Demerger: Separation of cash-generating Building Products (BPD) from the loss-making Consumer division (CPD) removes financial support linkages. Operational Slump: 9MFY25 revenue fell 8.7% YoY; EBITDA margins crashed to 6.47% (vs 10.41% YoY) due to weak demand. Sustained Leverage: Net Adjusted Debt/PBILDT remains high at ~5.2x (FY25E), exceeding the negative sensitivity threshold of 4.0x. CPD Losses: Continued EBITDA losses in the consumer segment (₹12.5 Cr loss in FY24) with limited visibility on a turnaround.
Rated Instruments	<ul style="list-style-type: none"> LT Cash Credit: ₹159.00 Cr
Key Observations	<ul style="list-style-type: none"> Deleveraging: Promoters infused ₹250 Cr via rights issue (Dec 2024), reducing total debt from ₹1,205 Cr to ₹1,010 Cr. Market Leadership: Hindware remains #1 in sanitaryware and #2 in faucets; Pipes (Trufllo) is a high-growth segment. Expansion: Roorkee plant (pipes) CoD expected May 2025; projected to add ₹225-250 Cr revenue at 11% margin. Working Capital Pain: High inventory (₹589 Cr) and elongated receivables (54 days) keep reliance on bank lines high. Cyclicality: Significant exposure to real estate cycles and volatile input costs (Gas, Brass, Clay). Strategic Shift: Exiting low-margin/seasonal furniture (EVOK) and fan businesses to focus on kitchen appliances.
Investor Impact	<ul style="list-style-type: none"> Equity Value Split: Post-demerger, shareholders get a 1:1 ratio. HL (Building) will be the value driver, while HHIL Ltd (Consumer) will be a high-risk turnaround play. Margin Pressure: Operating performance is decoupled from the strong brand name; cost-cutting targets 8-10% reduction but execution is key. Risk: Lack of cross-subsidization means the consumer business may face liquidity hurdles independently.
Agency / Cross Analysis	<p>Same Agency: CARE downgraded the entity despite a significant ₹250 Cr equity infusion. This indicates that structural risks (demerger) and operational decay (EBITDA crash) are currently more critical than the improved gearing (1.2x expected FY25).</p> <p>Conclusion: Deterioration in credit profile driven by the loss of the "Parent-Subsidiary" support umbrella.</p>
Final Inference	A negative signal for equity in the short term. While the demerger unlocks value for the Building segment, it exposes the Consumer business to standalone failure risks. Leverage of >5x EBITDA remains the primary valuation overhang.