Hindware Home Innovation Limited (Revised)

January 03, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	186.75	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	110.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**296.75 (₹ Two hundred ninety-six crore and seventy-five lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned for the bank facilities of Hindware Home Innovation Limited (HHIL), formerly, Somany Home Innovation Limited, continue to derive strength from its experienced promoters and its long track record of operations with a recognised brand name in the sanitaryware segment. The ratings continue to take into account its diversified product offerings, established marketing and distribution network, and comfortable financial risk profile.

These rating strengths, however, are partially offset by its working capital-intensive nature of operations, susceptibility of the company to volatility in fuel prices, raw material cost and foreign exchange rate fluctuations. The ratings are also constrained by its linkages to the cyclical real estate sector and its presence in a competitive industry.

The ratings also take into cognisance the increase in the consolidated debt on account of the acquisition of the business of manufacturing, sanitaryware, faucets and plastic pipes (polyvinyl chloride [PVC] and chlorinated polyvinyl chloride [CPVC]) and fittings (building products division [BPD] undertaking) from the group company – AGI Greenpac Ltd – on a slump sale basis for a lumpsum consideration of ₹700.00 crore The said acquisition is also expected to improve the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin, as the manufacturing margins earlier being paid to AGI Greenpac Ltd will be booked in HHIL consolidated (under HL). The increased leverage on account of the acquisition of the BPD manufacturing division resulted in a moderation of its capital structure; CARE Ratings Limited (CARE Ratings) is, however, drawing comfort from the liquidity headroom in the form of unutilised credit limits and long-tenured debt repayments. Going forward, a reduction in the debt position will remain a key monitorable.

Rating sensitivities

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

- Increase in the consolidated total operating income (TOI) in subsequent years and an improvement in its PBILDT margins from the current levels to over 12% on a sustained basis.
- Improvement in the overall leverage such that the net debt to PBILDT is below 2.5x on sustained basis.

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

- Deterioration in its capital structure with the net debt to PBILDT at 3.2x levels on a sustained basis beyond FY23.
- Any dis-investment in its wholly-owned subsidiary, i.e. HL, which leads to weakening of the financial position of HHIL.
- Any increase in the debt position on account of support extended to any group company in any form for organic or inorganic expansion, leading to a deterioration in the credit profile of HHIL and HL.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters and management team: HHIL is promoted by Dr RK Somany, who has an extensive experience of around 64 years in the industry. Sandip Somany, son of Dr RK Somany, is the Promoter and Chairman of the company and has

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

more than 34 years of experience in the ceramics and glass industries. He is on the board of the Federation of Indian Chambers of Commerce and Industry (FICCI) and was also its President in the past. He is also associated with The Associated Chambers of Commerce and Industry of India (ASSOCHAM), the Indian Council of Sanitaryware Manufactures (INCOSAMA), and the Governing Council of the All India Glass Manufacturers' Association. Rakesh Kaul is the Whole-time Director & CEO of the company and has over 24 years of experience across diverse sectors and industries that include consumer durables, e-commerce, retail, and mobility business. The extensive experience of the promoter in the business has helped in developing the Hindware brand and also establishing relationships with customers and suppliers. The board of the company is broad-based and has several independent professional members having vast industry experiences in diverse backgrounds. The operations of the company are managed by a well-qualified and experienced senior management team.

Long track record of operations with a recognised brand name in the sanitaryware and consumer product segment: HL, as a Somany Impressa group, has around six decades of presence in the sanitaryware segment. It is one of the largest sanitaryware and faucet players in the domestic market. The group's sanitaryware brand 'Hindware' is one of the oldest and well-known brands. Over the years, the company has expanded its segment profile to cater to various segments from the low to premium section. The company, through its subsidiary – HL, offers an entire range of sanitaryware through brands, with the Viterous and Benelave brands catering to the economy class, the Hindware Italian Collection catering to the middle class, and Neom, Alchymi and Queo catering to the super-premium and luxury class.

The company had started CPVC/unplasticised polyvinyl chloride (uPVC) pipes and fittings in FY19 (refers to the period from April 01 to March 31) and had also forayed into the premium and super premium tiles business with the brand Neom in 2019. The pipes and fittings business of the company has been one of the fastest-growing brands in India. Thus, the company is continuously expanding its brand base and has a leading position in the sanitaryware segment.

With the acquisition of the manufacturing of the BPD segment into HHIL (through Hindware), the business profile of the company has strengthened on account of synergies from control over manufacturing processes, enhanced flexibility, and a reduction in the dependence on third-party vendors.

Diversified product offerings and established marketing and distribution network: The company has diversified product offerings across the BPD. Under the BPD, the company offers various bathroom solutions that include sanitaryware, faucets, plastic pipe and fittings, wellness products, and other allied products. These include products such as water closets, wash basins, pedestals, squatting pans, urinals, cisterns, bidets, showers, bathroom faucets, kitchen faucets, bathtubs, shower panels, shower enclosures, whirlpools, CPVC, uPVC, PVC and soil, waste and rain (SWR) pipes and fittings, which include sewage pipes, hot and cold-water distribution, pipes and fittings and plumbing and drainage, steam generators, concealed cisterns, seat covers and PVC cisterns, etc.

Under CPD, the company offer multiple products such as kitchen appliances, air and water purifiers, water heaters, air coolers and vents across a varied price range for the evolved consumers in India. The company has also launched Snowcrest air coolers.

Earlier, the business of water heater was under the consumer product division of HHIL. However, the business was transferred to its joint venture (JV), Hintastica Private Limited (HPL), by way of a slump sale through a business transfer agreement between the company and HPL. The company has a product sourcing tie-up with global player Groupe Atlantic (Europe's leading brand in heating solutions) for water heaters. Under the retail division, the company offers specialty home interior products through its modern format stores and digital platforms under the brand 'EVOK'. The company has both, owned and franchise large format retail stores along with an online presence at www.evok.in and on other e-commerce platforms. The company has two company-owned and 39 franchise stores, through which it operates the retail segment along with the e-commerce platforms.

Established marketing and distribution network: Over the years, the company has developed relationships with a large network of dealers and retailers to reach out to customers across India. The company has a wide network of distributors and retail points across India for all businesses. It has the largest network spread among the sanitaryware companies in India, with a network of more than 3,100 distribution partners supported by over 35,000 retail outlets for the plastic pipes and fittings business.

In the CPD segment, the company has a vast network of 1,400+ distributors and 13,000+ retail outlets across India. The company's products are also sold through e-commerce platforms such as Amazon, Flipkart, Paytm, Snapdeal, and Tata CliQ. In addition to this, the products have a robust presence across modern retail format stores such as Reliance Digital, Walmart, Spencers, Metro Cash and Carry. The company has undertaken strategic marketing initiatives to popularise products and to enhance its presence on various e-commerce platforms as an additional distribution channel. Furthermore, the company has both, owned and franchise large format retail stores, along with an online presence at www.evok.in and on other leading e-commerce platforms. The company operates through around 39 franchise large format retails stores under the EVOK brand.

Comfortable financial risk profile, albeit moderation in the capital structure post slump sale transaction: During FY22, the total income of HHIL stood at ₹2,288 crore as against ₹1,766 crore in FY21, ie, a 29.5% growth. The growth in the top-line was driven by the building product segment. Of the total revenues, the consumer appliance business reported a revenue of ₹431 crore while the retail business reported a revenue of ₹67 crore, with the building products business contributing ₹1,795 crore.

The PBILDT margin of the company for FY22 stood at 7.44% as against 7.62% in FY21. The profitability remained muted on account of the significant increase in the prices of raw materials in H2FY22.

The company acquired the BPD manufacturing division from AGI Greenpac Ltd effective from April 2022. Going forward, since HHIL through its subsidiary, HL, was already engaged in the sale of BPD products manufactured by AGI Greenpac Ltd under an agreement, the incremental asset base will not lead to any increase in its revenue going forward. However, the acquisition is expected to yield a positive impact on the PBILDT margin of about 2.5-3% in the near to medium term on account of accruals of the manufacturing margins which it earlier used to pay to AGI Greenpac Ltd.

The consolidated overall gearing as on March 31, 2022, stood at 0.76x as compared with 0.89x as on March 31, 2021. In April 2022, a term debt of ₹400 crore was availed for discharging the purchase consideration payable to AGI Greenpac Ltd for the acquisition of the BPD manufacturing division. With increased indebtedness in FY23 on account of the acquisition of the BPD manufacturing segment and reduced profit margins on account of the steep increase in the prices of raw materials, a moderation is expected in the overall gearing ratio and total debt (TD)/PBILTD for the year ended March 31, 2023, and an improvement is expected in the subsequent year as additional debt is paid off out of accruals generation. CARE Ratings is, however, drawing comfort from the liquidity headroom in the form of unutilised credit limits and long-tenured debt repayments. The reduction of the debt remains a key monitorable going forward.

In H1FY23 (refers to the period from April 01 to September 30), the company reported a growth of 45% in the TOI, which stood at ₹1,402 crore on account of the lower base in H1FY22 on account of the second wave of COVID-19. On the profitability front, the company reported a PBILDT margin of 8.77% as against 6.83% in H1FY22. In absolute terms, the PBILDT in H1FY23 stood at ₹123 crore as against ₹66 crore in H1FY22. The profitability in the two given periods is not comparable as the company acquired the BPD manufacturing segment from AGI Greenpac Ltd effective from April 01, 2022, and the profit margins relating to manufacturing are now accruing to it in H1FY23. During H1FY23, the pipe division incurred an inventory loss of ₹25 crore and the BPD segment also witnessed a gross loss of ₹12 crore in H1FY23 on account of a lag in the passing of increased prices of raw materials to the customers.

Key rating weaknesses

Working capital-intensive nature of operations: The operations of the company are working capital-intensive in nature on account of the high inventory-holding requirements and high collection period. The company has to hold and maintain sufficient inventory of its large portfolio of products across its retail outlets, which results in high inventory to be held by the company. The total inventory of the company stood at around ₹675.31 as on March 31, 2022, as compared with ₹280.18 crore as on March 31, 2021. The substantial increase in the inventory is on account of the acquisition of the manufacturing division of AGI Greenpac Ltd with effect from March 31, 2022 (as a part of the slump sale inventory of ₹234 crore was acquired) and higher inventory stock up due to the expected robust demand on the back of the real estate upcycle. However, with the recent hikes in interest rate by the Reserve Bank of India (RBI), the interest rate on home loans have increased substantially, which has led to a reduction in demand from the builders who were adopting a wait and watch approach with respect to new launches.

While historically the trade receivables of the company are also on the higher side with an average collection period of 80 days, the receivable position has seen an improvement in FY22, as there has been a reduction in the collection days to 57 days. The creditor days increased from 28 days in FY21 to 34 days. The working capital cycle of the company for FY22 stood at 114 days compared with 124 days. However, the same is still at a higher level, which has resulted in sufficient reliance of the company towards working capital borrowings. The working capital borrowings of the company stood at around ₹130.43 crore (PY: ₹141.86 crore) as on March 31, 2022.

Susceptibility of the company to volatility in raw material prices: The volatility in fuel prices (primarily natural gas) and other key raw materials (various types of clay, brass, and chrome plating) directly impacts the cost of production for the company. During FY22, the company witnessed a significant surge in the prices of raw materials, with the prices of brass increasing by 32% between FY21 to FY22. The inflationary pressure was further aggravated in H1FY23, with the prices of LPG witnessing a surge of 38% and the prices of natural gas increasing by 75%. In light of the substantial increase in the input costs, the company undertook two price hikes in FY22, which resulted in the sale price increasing by an average of 10-20% across various segments. The company also undertook a price hike in Q1FY23 of 5-10% across various segments and plans to hike the prices further in Q3FY23 by another 5-10%. However, given that the company has to sell products according to the prevailing market prices, it has not been able to pass on the complete effect of increased raw material prices to the end consumer.

Linkages to the cyclical real estate sector and presence in a competitive industry: The demand for HHIL's products is linked to the cyclical real estate sector. In the post-COVID scenario, the Indian residential market staged a stellar recovery in FY22, with industry sales volumes recovering back to the FY20 level and unsold inventory reducing from 46 months to 36 months over FY20-22. However, the recent rise in interest rates globally and in India along with a rise in construction costs has led to concerns over the sustainability of residential demand.

The demand for ceramics has risen in the recent past owing to the initiatives under the *Swachh Bharat Abhiyan* (SBA) and the *Pradhan Mantri Awas Yojana* (PMAY) along with higher replacement demand. Furthermore, factors such as increasing urbanisation with the government's plan to develop at least 100 smart cities, the renewed focus on infrastructure growth, better demographic profile, and the increasing awareness towards better sanitation facilities, etc, augur well for the industry. The sanitaryware market is also witnessing a shifting of consumer preference towards branded products, thereby presenting growth opportunities for established players like HHIL in the industry. HHIL maintains a strong presence in the mass and mid-market segments of the sanitaryware industry (leading player in the domestic market). However, there are many unorganised players in the ceramic products and faucet market (around 50% of the market is unorganised) along with established brands like 'Cera', 'Roca', 'Jaquar' in faucetware and 'Kajaria', 'Somany' in the tiles market, thus increasing competition.

Liquidity: Adequate (HHIL)

The liquidity profile of the company is adequate, with an average working capital utilisation of around 34% for the last 12 months ending August 2022, leaving sufficient buffer in the working capital limits. The company has an operating cycle of 114 days as on March 31, 2022 (PY: 124 days). The collection period for the company has reduced to 57 days in FY22 (PY: 79 days) mainly on account of targeted efforts of the company by regular follow-ups for timely payments. The company has to maintain sufficient inventory in its display showrooms and also with all the dealers for the BPD and CPD segments, therefore the inventory days as on March 31, 2022, stood at 91 days (PY: 73 days). The substantial increase is attributable to the acquisition of the BPD manufacturing division of AGI Greenpac Ltd by HL. As on March 31, 2022, the company had cash and cash equivalents of ₹54 crore (around ₹27 crore in mutual funds) while as on September 30, 2022, the company had cash and cash equivalents of ₹7 crore.

The current ratio and quick ratio stood at 0.88x (PY: 1.42x) and 0.38x (PY: 0.93x), respectively, as on March 31, 2022. The deterioration is on account of inclusion of ₹591 crore payable to AGI Green Pac Ltd as on March 31, 2022, on account of the acquisition of the BPD manufacturing segment in other current liabilities.

Furthermore, the company at a consolidated level (consolidated including guaranteed debt of Hintastica Private Limited) has a repayment due of ₹63 crore in FY23, ₹99 crore in FY24 and ₹112 crore in FY25, which is expected to be comfortably met out of the cash accruals of the company.

ESG profile

The bathware and pipes manufacturing industries are energy-intensive and the manufacturing process results in higher carbon emissions and other environmental risks. On the social front, the company is exposed to the health and safety effects of its operations on society and its employees and the changing preferences of the end user requiring investments in the form of support and contribution to the community affected in and due to the manufacturing process. The annual report for FY22 highlights the below initiatives undertaken by the company:

Environmental practices:

- The company has received the following green ratings: GreenCo Platinum Rated Sustainable Manufacturing, Green Platinum Rated Factory Building, ISO 9001:2015 certificate, etc.
- The company has moved towards paper pulp in place of thermocol, shifted towards runnerless injection moulds, and is actively working on BLDC technology across multiple segments.

Social:
The company launched a purpose-led initiative 'Build a Toilet, Build her Future' on World Toilet Day. The initiative focuses on encouraging the girl child to continue schooling by providing access to adequate sanitation infrastructure at schools. Under this programme, the company will be constructing over 50 toilets across Gurugram, Sonipat, Udaipur, and Bahadurgarh to send lakhs of girls back to school. It has collaborated with Ma My Anchor, an NGO, to ensure on-ground execution. The company launched this campaign in 2020 in Bahadurgarh, involving the architectural community to design economical yet functional toilets.

Governance:
- The company's governance framework ensures its conformation with existing rules and regulations and laws. It periodically interacts and reports to regulatory bodies to ensure transparency regarding its policies and decision-making processes.
- The company's philosophy on corporate governance ensures the protection of the interest of shareholders, disclosure and transparency in business transactions, compliances with statutory and legal frameworks, and ethical conduct of business.

Analytical approach
CARE Ratings has taken a consolidated approach of HHIL and its subsidiaries, as all these entities are under a common management and have strong business and operational linkages, with the majority of the contribution coming from its subsidiary (HL, rated 'CARE A+; Stable/A1+'). Furthermore, HHIL has partly guaranteed the debt obligation of its JV, HPL, which has also been factored in the rating assessment.

The entities considered in consolidation are mentioned in Annexure-6 below.

Applicable criteria
Policy on default recognition

Consolidation

Factoring Linkages Parent Sub JV Group

Financial Ratios – Non financial Sector

Liquidity Analysis of Non-financial sector entities

Rating Outlook and Credit Watch

Short Term Instruments

Manufacturing Companies

About the company
HHIL, formerly Somany Home Innovation Limited, is part of the Somany Impressa Group under the leadership of Sandip Somany, Chairman, and was incorporated on September 28, 2017. The demerger of AGI Greenpac Limited (formerly HSIL Ltd) vide order dated November 10, 2017, led to the transfer and vesting of the marketing and distribution of the consumer products and retail businesses to HHIL and the marketing and distribution business of building products to HL, formerly Brilloca Limited (wholly-owned subsidiary of HHIL) w.e.f April 01, 2018. HHIL is engaged in the branding, marketing, sales, distribution, trading, service, etc, of various consumer products like air purifiers, air coolers, kitchen appliances, water heaters, exhaust fans, water purifiers, etc, and retail business, consisting of branding, marketing, sales, distribution, trading, service, etc, of furniture, furnishings, home décor, etc. Furthermore, pursuant to the vesting of the building products distribution and acquisition of the marketing undertaking of AGI Greenpac Limited in FY23, HL is engaged in the manufacturing, branding, marketing, sales, distribution, trading, service, etc, in the business of comprehensive bathroom solutions that include sanitaryware, faucets,

plastic pipe and fittings, wellness products, and other allied products such as water closets, wash basins, pedestals, squatting pans, urinals, cisterns, bidets, showers, bathroom faucets, kitchen faucets, bathtubs, shower panels, shower enclosures, whirlpools, steam generators, concealed cisterns, seat covers and PVC cisterns, etc.

In FY21, the company has sold off its water heater business undertaking being part of the consumer product division of the company to its wholly owned subsidiary, Hintastica Private Limited (HPL), by way of a slump sale through a business transfer agreement between the company and HPL. The company wants to have a more focused approach on this business and therefore it has been transferred to another entity for future growth.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23(UA)
Total operating income	1766	2288	1,402
PBILDT	135	170	123
PAT	55	202^	27
Overall gearing (times)	0.89	0.76	NA
Interest coverage (times)	4.56	8.34	3.82

A: Audited, UA: Un-audited, NA: Not available.
^Includes one-time extraordinary gain of ₹101 crore on account of a slump sale of the water heater division.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	174.00	CARE A+; Stable
Fund-based - LT-Term Loan		-	-	01-12-2026	12.75	CARE A+; Stable
Non-fund-based - ST-BG/LC		-	-	-	110.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020

1.	Fund-based - LT-Term Loan	LT	12.75	CARE A+; Stable	-	1)CARE A+; Stable (22-Mar-22)	1)CARE A+; Stable (04-Mar-21)	1)CARE A+; Stable (02-Mar-20)
2.	Fund-based - LT-Cash Credit	LT	174.00	CARE A+; Stable	-	1)CARE A+; Stable (22-Mar-22)	1)CARE A+; Stable (04-Mar-21)	1)CARE A+; Stable (02-Mar-20)
3.	Non-fund-based - ST-BG/LC	ST	110.00	CARE A1+	-	1)CARE A1+ (22-Mar-22)	1)CARE A1+ (04-Mar-21)	1)CARE A1+ (02-Mar-20)

*Long term/Short term.

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

Not applicable

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of 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

Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please click here.

Annexure-6: Entities being consolidated

Companies considered under consideration	Subsidiary/Associate	Percentage of share held
Hindware Home Retail Pvt. Ltd.	Subsidiary	100
Luxxis Heating Solutions Private Limited	Subsidiary	100
Hindware Limited	Subsidiary	100
Hintastica Private Limited	Subsidiary – Upto May 19, 2021; Joint Venture – with effect from May 20, 2021	50
Halis International Ltd. (Subsidiary of Hindware Ltd)	Step Down Subsidiary	100
Queo Bathroom Innovations Ltd. UK (Subsidiary of Halis International Ltd.)	Step Down Subsidiary	100

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Ravleen Sethi
Phone: +91-98180 32229
E-mail: ravleen.sethi@careedge.in

Relationship contact
Name: Swati Agrawal
Phone: +91-11-4533 3200
E-mail: swati.agrawal@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in