Somany Home Innovation Limited

March 04, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	168.25 (Enhanced from 159.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	85.00 (Enhanced from 20.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**253.25 (Rs. Two Hundred Fifty-Three Crore and Twenty-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned for the bank facilities of Somany Home Innovation Limited (SHIL) continues to derive strength from its experienced promoters and their long track record of operation with recognized brand name in sanitary ware & consumer product segments. The ratings continue to take into account its diversified products offerings, established marketing & distribution network and its comfortable financial risk profile characterized by adequate capital structure and debt service coverage indicators.

These rating strengths, however, are partially offset by its working capital intensive nature of its operations and significant dependence on its group company i.e. HSIL Limited (rated CARE A+; Stable/ CARE A1+) for procurement of goods for its wholly owned subsidiary (Brilloca Limited). The rating also takes into account susceptibility of the company to volatility in the prices of traded goods, linkages to cyclical real estate sector and presence in a competitive industry.

SHIL has not sought any moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020.

Rating Sensitivities

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

- Increase in consolidated Total operating income by more than 25% in the projected years and improvement in its PBILDT margins of more than 10% on a sustained basis.
- Improvement in the capital structure with overall gearing of below 0.5x on sustained basis.

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

- Deterioration in its capital structure with overall gearing of more than 1.75x on a sustained basis.
- Any dis-investment in its wholly owned subsidiary (i.e. Brilloca Limited) which leads to weakening of the financial position of SHIL.
- Any Change in terms for procurement of products from HSIL Limited which may have an adverse impact on SHIL consolidated financial risk profile.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team

SHIL is promoted by Dr. R K Somany who has an extensive experience of around 64 years in the industry. Mr. Sandip Somany (son of Dr. R K Somany) is the Promoter and the Chairman of the company and has around 34 years of experience in the ceramics and glass industry. He is currently on the Board and the immediate past President of Federation of Indian Chambers of Commerce and Industry (FICCI) and is also a Member of Managing Committee of The Associated Chambers of Commerce and Industry of India (ASSOCHAM), Chairman of the Indian Council of Sanitaryware Manufactures (INCOSAMA) and Member of the Governing Council of All India Glass Manufacturer's Association. Mr. Rakesh Kaul, is the Whole-time Director & CEO of the company and has over 24 year of experience across diverse sectors and industries that includes Consumer Durables, E-commerce, Retail, Mobility Business. The extensive experience of the promoter in the business has helped in developing the Hindware 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.

Long track record of operations with recognized brand name in sanitary ware & consumer product segment
SHIL as a Somany Impressa group has around 6 decades of presence in the sanitaryware segment and has a significant market share in all the business verticals of its presence. It is one of the largest sanitary ware and faucet player in the domestic market. Further, it is among top 2 players in the kitchen chimney segment and also its group company, HSIL Limited, is one of the leading glass container manufacturers in India. Company's sanitary-ware 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 low-to-premium section. The company offers across entire range of sanitaryware segment through brands with Viterous brand catering to economy class, Benelave catering to Economy, Hindware Italian Collection catering to Middle Class and Neom, Alchymi and Queo catering to super premium and Luxury class. Company had earlier started CPVC/ UPVC pipes and fittings in FY19 (refers to period from April 01 to March 31) and had also forayed into premium and super premium tiles business with brand Neom in 2019. Thus company is continuously expanding its brand base and is having leading position in the sanitaryware segment.

Diversified product offerings
The company has diversified products offering across Building Products Division (BPD, through its wholly owned subsidiary-Brilloca Limited), Consumer Product Division (CPD) and retail Business. Under Building Products division, company offers various bathroom solutions that includes sanitaryware, faucets, plastic pipe and fittings, wellness products and other allied products. This includes such as water closets, wash basins, pedestals, squatting pans, urinals, cisterns, bidets, showers, bathroom faucets, kichen faucets, bath tubs, shower panels, shower enclosures, whirlpools, Chlorinated polyvinyl chloride (CPVC), Unplasticized polyvinyl chloride (uPVC), Poly Vinyl Chloride (PVC) and Soil, Waste and Rain (SWR) pipes and fittings which includes 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, Company offer multiple products such as kitchen appliances, air and water purifiers, water heaters, air coolers and vents across varied price range for the evolved consumers in India. Company is having a product sourcing tie-up with global player Groupe Atlantic (Europe's leading brand in heating solutions) for water heaters. Company has also launched Snowcrest Air Coolers. Under Retail Division, Company offer specialty home interior products through our modern format stores and digital platforms under the brand 'EVOK'. Company have 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 in 9MFY21 (refers to period April 01 to December 31) has closed 8 out of 10 EVOK retail outlets to reduce the fixed and operating costs which will help the company to channelize its focus towards digital touchpoints through company's website and other online marketplaces. The company now has 2 company owned and 20 franchise stores through which it is operating the retail segment along with the e-commerce platforms.

Established marketing & distribution network
Over the years, Company has developed relationships with a large network of dealers and retailers to reach out to customers across India. Company has a wide network of distributors and retails points across India for all businesses. Company is having largest network spread amongst the sanitaryware companies in India and has a network of 135+ distributors supported by 14,000+ retail outlets for plastic pipes and fitting business.
Company have a vast network of 1000+ distributors and 10,000+ retail outlets across India for its CPD business division. Company's products are also sold through ecommerce platforms such as Amazon, Flipkart, Paytm, Snapdeal and Tata CLiQ. Further, Company have both owned and franchise large format retail stores along with an online presence at www.evok.in and on other leading e-commerce platforms. Company operate through around 22 (owned and franchise) large format retails stores under EVOK brand.

Comfortable financial risk profile
During FY20, company has generated total sales of Rs.1633.41 crore which has marginally declined by 1.5% over the previous year sales in FY19 of Rs.1664.30 crore. The decline in sales is majorly on account of the lockdown due to the outbreak of Covid-19 which resulted loss of sales in latter half of March 2020. PBILDT Margin of the company for FY20 stood at 6.65% in FY20 as compared to 7.07% in FY19. The decline in margin in FY20 is mainly due to absence of sales in latter half of March 2020 where in the operations of the company came at a complete standstill owing to nationwide lockdown while all the related costs, etc have been accounted for in the said period & hence leading to lower absorption of the fixed cost with decline in margins.
The consolidated total debt as on March 31, 2020 stood at Rs.409.40 crore as compared to Rs.302.72 crore as on March 31, 2019. The increase in debt is majorly on account of finance lease of Rs.81.34 crore and incremental working capital borrowings. The overall gearing of the company stood at 1.50x as on March 31, 2020 as compared to 1.19x as on March 31, 2019.
In 9MFY21 (refers to period from April 01 to Dec 31) although the company reported decline in sales by around 6.80% on Y-o-Y basis due to subdued Q1FY21. However, the company has reported PAT in 9MFY21 of Rs.32.58 crore as compared to profit

of Rs.20.81 crore in 9MFY20 inspite of a subdued Q1FY21. After having subdued Q1FY21 (on account of lockdown), the company has started to improve from Q2FY21 onwards and has reported improved profitability & sales from Q2FY21 onwards with losses reducing in the CPD & retail segment and due to the pick-up of sales across all categories. The PBLIDT margins improved & stood at 10.74% in Q3FY21 which improved y-o-y from 7.61% in Q3FY20 on account of better profitability in the CPD segment and also reduction of losses in retail segment.

Liquidity: Adequate
The liquidity profile of the company is adequate with the average working capital utilization of ~53% for the last 12 months ending January 2021 leaving sufficient buffer in the working capital limits. It has an operating cycle of 127 days as on March 31, 2020 as it usually has a collection period of 75-80 days while it gets 30-35 days as credit period from its suppliers. It has to maintain sufficient inventory in its display showrooms and also inventory for the BPD and CPD segments, therefore inventory days as on March 31, 2020 stood at 79 days. As on March 31, 2020, the company had cash and cash equivalents of Rs.2.67 crore while as on Sep 30, 2020, the company had cash and cash equivalents of Rs.18.86 crore. Current ratio and quick ratio stood at 1.28x (PY: 1.29x) and 0.79x (PY: 0.85x) respectively as on March 31, 2020. Further, at consolidated level it has repayment due of Rs.12.37 crore in FY21 (including leased liability), out of which Rs.9.91 crore which has been repaid till December 31, 2020. For FY22, the company at consolidated level has repayments of Rs.15.05 crore including leased liability. It has further not availed any moratorium facility provided by RBI and is paying as per the original schedule.

Key Rating Weaknesses
Working capital intensive nature of operations
The operations of the company are working capital Intensive in nature on account of high inventory holding requirement and high collection period. Total inventory of the company increased and stood at around Rs.310.17 crore as on March 31, 2020 as compared to Rs. 279 crore as on March 31, 2019. The increase in inventory is mainly due to loss of sales in latter half of March 2020 due to nationwide lockdown which resulted in pile up of inventory. However, the same got reduced to the levels of Rs.263.69 crore as on Sep 30, 2020 on consolidated basis. Trade receivables of the company stood at around Rs.359.18 as on March 31, 2020 and Rs.347.78 crore as on Sep 30, 2020 (PY: Rs. 356 crore as on March 31, 2019). Around 70% of the outstanding debtors of the company are from BPD Division (pertains to its wholly owned subsidiary Brilloca). This resulted in sufficient reliance of the company towards working capital borrowings. The WC utilization for last 12 months ending Jan-21 stood at 53%.

Significant dependence on HSIL Limited (rated CARE A+; Stable/A1+)
Post Demerger, 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 (wholly owned subsidiary of SHIL 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 sanitary ware segments to Brilloca as HSIL has manufacturing facilities according to the marketing needs of Brilloca.
Further, SHIL is getting around 72% of its income from BPDM segment in FY20 (PY: 76%) and Brilloca Ltd. procured around 44% of its traded goods for sanitaryware (BPD Segment) from HSIL Ltd in FY20 (PY: 60%).

Susceptibility of the company to volatility in the prices of traded goods
Volatility in fuel prices (primarily natural gas) and other key raw materials (various types of clay, brass and chrome plating) can impact the procurement cost for the company. Further, the company has to sell the products according to the prevailing price in the market at that time, which might be different from the price prevailing at the time of procurement of products. Thus, the company is exposed to volatility in the prices of the traded goods and any adverse movement in the price of traded goods by the company may have a negative impact on the profitability margins of the company.
However, the company is able to pass on any increase in the cost of traded goods to its customers for the majority of sales due to its strong brand name in the domestic market and the company generally sells the goods after booking the minimum desirable gross profit margin but some times the cost of carrying/stocking the goods becomes higher than the difference in cost of goods (preferable price minus prevailing price). This results into the fluctuation of profitability margins of the company.

Linkages to cyclical real estate sector and presence in a competitive industry
Demand for SHIL's products is linked to the cyclical real estate sector. There has been a dip in construction activities post implementation of RERA in FY17. Launch of new projects were deferred as the players sought to gauge the impact RERA could have on the on-going and upcoming projects, before making new announcements. However RERA has led to completion of the stalled construction projects which has revived the demand for building and construction materials to some extent. Further, 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. These policies have had direct effect on the demand for the building and construction materials industry and consequently, there has been an uptick in the consumption of ceramic tiles and sanitaryware. The market for both these ceramic products is growing on the back of upcoming real estate projects in affordable housing, especially in the Tier II cities. There is a substantial shortage of housing and sanitation facilities in India, which is expected to result in steady demand for sanitary ware products. Further, factors such as increasing urbanization with the government's plan to develop at least 100 smart cities, renewed focus on infrastructure growth, better demographic profile and increasing awareness towards better sanitation facilities etc. augurs well for the industry. The sanitary ware market is also witnessing shifting of consumer preference towards branded products thereby presenting growth opportunities for established players like SHIL in the industry. SHIL maintains strong presence in the mass and mid-market segments of the sanitaryware industry (leading player in the domestic market). However, there are many unorganized players in the ceramic products and faucet market (around 50% of the market is unorganized) and established brands like 'Cera', 'Roca', 'Jaquar' in faucet ware and 'Kajaria', 'Somany' in tiles thus increasing competition.

Analytical approach: Consolidated.
CARE has taken a consolidated approach of SHIL and its subsidiaries, as all these entities are under a common management, and have strong business and operational linkages, with majority of contribution coming from its subsidiary (Brilloca Limited, rated CARE A+; Stable/A1+).
The particulars of subsidiary companies which are included in consolidation and the parent company's holding therein are as under:

S.No.	Name of the Company	% of the shares held by SHIL
1	Hindware Home Retail Pvt. Ltd. (HHRPL)	100%
2	Luxxis Heating Solutions Private Limited (LHSPL)	100%
3	Brilloca Limited	100%

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology – Wholesale Trading
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial sector entities
Financial Ratios – Non financial Sector
Rating Methodology: Notching by factoring linkages in Ratings
Rating Methodology: Consolidation

About the Company
Somany Home Innovations Limited (SHIL) is a part of Somany Impressa Group under leadership of Mr. Sandip Somany (Chairman) and was incorporated on September 28, 2017. Demerger of HSIL Limited vide order dated Nov. 10, 2017 led to transfer & vesting of Marketing & Distribution of Consumer Products and Retail businesses to SHIL; and Marketing & Distribution Business of Building Products to Brilloca Limited (Brilloca, wholly owned subsidiary of SHIL) w.e.f April 01, 2018. SHIL is engaged in 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. Further, pursuant to the vesting of Building Products Distribution and Marketing Undertaking of HSIL in Brilloca Limited, wholly owned subsidiary of SHIL, Brilloca Limited is engaged in 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, bath tubs, shower panels, shower enclosures, whirlpools, steam generators, concealed cisterns, seat covers and PVC cisterns etc. As part of demerger scheme, shareholder holding 1 share of HSIL Limited has been allotted 1 share of SHIL as on record date of 20th August 2019.
Board of Directors of the company has approved the sale of its Water Heater Business Undertaking being part of the consumer product divison of the company to its wholly owned subsidiary Hintastica Private Limited (HPL) by way of slump sale through business transfer agreement between the company and HPL. The company wants to have more focused approach on this business and therefore it has been transferred to another entity for future growth. The water heater contributed ~4% to the total operating income in FY20.

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

Brief Financials (Rs. crore)	FY19 (A) Post demerger	FY20 (A)
Total operating income	1664.29	1633.41
PBILDT	117.66	108.68
PAT	54.70	23.11
Overall gearing (times)	1.30	1.61
Interest coverage (times)	4.13	3.26

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	-	-	Dec 2026	14.25	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	154.00	CARE A+; Stable
Non-fund-based - ST-BG/LC	-	-	-	85.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	14.25	CARE A+; Stable	-	1)CARE A+; Stable (02-Mar-20)	-	-
2.	Fund-based - LT-Cash Credit	LT	154.00	CARE A+; Stable	-	1)CARE A+; Stable (02-Mar-20)	-	-
3.	Non-fund-based - ST-BG/LC	ST	85.00	CARE A1+	-	1)CARE A1+ (02-Mar-20)	-	-

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

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the 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

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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