

## Hindware Limited (Revised)

August 12, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	900.00 (Enhanced from 293.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	95.00 (Enhanced from 41.00)	CARE A1+ (A One Plus)	Reaffirmed
<b>Total bank facilities</b>	<b>995.00</b> <b>(₹ Nine hundred ninety-five crore only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Hindware Limited continue to derive strength from its experienced promoters and their long track record of operations with a recognised brand name in the sanitaryware segment. The ratings also continue to factor in its diversified product offerings, established marketing and distribution network, and comfortable financial risk profile.

These rating strengths are, however, partially offset by the working capital-intensive nature of its operations, the susceptibility of the company to the 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 transaction pertaining to the purchase of the business of manufacturing sanitaryware, faucets, and plastic pipes (polyvinyl chloride [PVC] and chlorinated polyvinyl chloride [CPVC]) and fittings (the Building Products Division [BPD] undertaking) from the group company – AGI Greenpac Limited (AGI; erstwhile HSIL Ltd) on a slump-sale basis, for a lumpsum consideration of around ₹700 crore. The completion of the said deal has led to an increased indebtedness in the company, albeit, accompanied by an increase in profitability, as the manufacturing margins which were being paid to AGI will accrue to Hindware Ltd going forward. Although the increased leverage will result in a moderation of its capital structure, CARE Ratings Limited (CARE Ratings), however, draws comfort from the enhanced profits and long tenure debt repayments, leading to comfortable debt coverage metrics.

### Rating sensitivities

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

- Increase in the total operating income (TOI) by more than 20% in the projected years and improvement in its profit before interest, lease rentals, depreciation and taxation (PBILDT) margin to 15% or more from the current levels on a sustained basis.
- Ability of the company to maintain total debt (TD) to PBILDT of less than 2x on a sustained basis.

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

- Deterioration in its capital structure, with overall gearing of more than 1.30x in the projected period.
- TD to earnings before interest, taxes, depreciation, and amortisation (EBITDA) at 3x levels on a sustained basis.

### Detailed description of the key rating drivers

#### Key rating strengths

**Experienced promoters and management team:** Hindware Ltd is the wholly-owned subsidiary of Hindware Home Innovations Limited (HHIL) and is promoted by Dr RK Somany, who has an extensive experience of around 64 years in the

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

industry. Sandip Somany (son of Dr RK Somany) is the Promoter and the Chairman & Managing Director of the company and has around 34 years of experience in the ceramics and glass industries. He is currently on the board and is also an immediate past president of the Federation of Indian Chambers of Commerce and Industry (FICCI) and is also a Member of the Managing Committee of The Associated Chambers of Commerce and Industry of India (ASSOCHAM), the Chairman of the Indian Council of Sanitaryware Manufactures (INCOSAMA), and a Member of the Governing Council of the All India Glass Manufacturer's Association. 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 a well-qualified and experienced senior management team.

**Long track record of operations with a recognised brand name in sanitaryware:** The Somany Impressa group has around six decades of presence in the sanitaryware segment and has a significant market share in all the business verticals of its presence. It is the leading sanitaryware player in India and is one of the largest faucet players in the domestic market. Furthermore, HHIL (its holding company) is among the top two players in the kitchen chimney segment; and, its group company, AGI, is one of the leading container glass manufacturers in India.

The company's sanitaryware brand, Hindware, is one of the oldest and most well-known brands. Over the years, the group has expanded its segment profile to cater to various segments from the low to premium section. The company's offerings span across the entire range of the sanitaryware segment through its brands, with the Vitreous 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 classes. The company had started manufacturing CPVC and unplasticised polyvinyl chloride (UPVC) pipes and fittings in FY19 and had also forayed into the premium and super-premium tiles business with the brand Neom in 2019. Thus, the company is continuously expanding its brand base and has a leading position in the sanitaryware segment.

Going ahead, with the acquisition of manufacturing of the BPD undertaking from the group entity, the business profile of the company is expected to be further strengthened on a consolidated basis, on account of synergies from control over manufacturing processes, enhanced flexibility, and a reduction in the dependence on third-party vendors.

**Diversified product offerings:** The company has diversified product offerings across the BPD. Under the BPD, the company offers various bathroom solutions that include sanitaryware, faucets, plastic pipes and fittings, wellness products, and other allied products. This includes 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.

Also, in the fittings segment, it includes sewage pipes, hot and cold water distribution, pipes and fittings, plumbing and drainage, steam generators, concealed cisterns, seat covers, and PVC cisterns, among others.

**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 its businesses. It has the largest network spread among the sanitaryware companies in India, with a network of 3,100+ distribution partners supported by 35,000+ retail outlets for the plastic pipes and fitting business.

**Comfortable financial risk profile, albeit moderation in capital structure post slump-sale transaction:** During FY22 (refers to the period from April 01 to March 31), the company witnessed about 42% growth in total income with sales of ₹1,795 crore, as against ₹1,262 crore in FY21. The growth was mainly driven by expansion in the product portfolio in the sanitaryware and faucet stock keeping units (SKUs) as well as the entry into new markets including Australia, Bangladesh, and China. The PBILDT margin of the company for FY22 stood at around 9% (PY: 9.03%).

Since Hindware Ltd was already engaged in the sale of BPD products manufactured by AGI under an agreement, the incremental asset base will not lead to any increase in its revenue, going forward. There will, however, be a positive impact on the PBILDT margin of about 3-4% in the near to medium term due to accruals of the manufacturing margins, which it earlier used to pay to AGI.

The overall gearing, as on March 31, 2022, stood at 0.48x as compared to 0.42x as on March 31, 2021, mainly due to lower working capital utilisation. The TD as on March 31, 2022, stood at ₹166 crore and the same increased to ₹516.54 crore as on June 30, 2022 (₹350 crore long-term and balance working capital borrowings). This increase is due to funding of the slump-sale consideration of ₹605 crore (of total of around ₹700 crore), which was funded by long-term debt of ₹350 crore, working capital debt and internal accruals of ₹119 crore, and liquidity and mutual funds of ₹136 crore. With increased indebtedness in FY23, the overall gearing ratio and TD/PBILDT will deteriorate temporarily until the additional debt is paid out of the accruals generation. CARE Ratings is, however, drawing comfort from the enhanced profits and long-tenure debt repayments, leading to comfortable debt service coverage indicators, which are expected to remain above 2x in the medium term.

### **Key rating weaknesses**

**Working capital-intensive nature of operations:** The operations of the company are working capital-intensive in nature because of the high inventory holding requirement and high collection period. The total inventory of the company stood at around ₹531.61 crore as on March 31, 2022, as compared to ₹152.39 crore as on March 31, 2021. The increase in inventory was primarily because of the transfer of assets, which took place from AGI due to the slump-sale deal.

The trade receivables of the company stood at around ₹165.16 crore as on March 31, 2022, as against ₹247.06 as on March 31, 2021. The increased accruals so far have been supporting the working capital requirements of Hindware Ltd, but with the slump-sale transaction taking place, the working capital utilisation is expected to increase to support the manufacturing operations, going forward.

**Susceptibility of the company to the 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) can impact the procurement cost for the company. Notably, the prices of brass have doubled over the past year. The company is also exposed to the volatility in the prices of traded goods in the BPD and any adverse movement in the price of traded goods by the company may have a negative impact on its profitability margins.

However, the company has been able to largely pass on any increase in the cost of raw materials and other operating costs with some lag to its customers for most sales due to its strong brand name in the domestic market and it generally sells the goods after booking the minimum desirable gross profit margin.

**Linkages to the cyclical real estate sector and presence in a competitive industry:** The demand for Hindware products is linked to the cyclical real estate sector. On the back of the COVID pandemic, there was a significant decline in its scale of operations in Q1FY21, and during the second wave of the pandemic, its scale of operations was again impacted in Q1FY22 on the back of a slowdown in the real estate sector. The demand for ceramics has, however, 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 a 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 Tier-II cities. There is a substantial shortage of housing and sanitation facilities in India, which is expected to result in steady demand for sanitaryware products. 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 increasing awareness towards better sanitation facilities, among others, augur well for the industry. The sanitaryware market is also witnessing a shift of consumer preferences towards branded products, thereby presenting growth opportunities for established players like Brilloca in the industry. Brilloca 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) and established brands like Cera, Roca, and Jaquar in faucet ware and Kajaria and Somany in the tiles segment, thus increasing competition.

#### **Liquidity:** Adequate

The liquidity profile of the company is adequate, with an average working capital utilisation of around 8% for the last 12 months ending June 30, 2022, leaving enough buffer in the working capital lines. The increased accruals so far have been supporting the working capital requirements of Hindware Ltd, but with the slump-sale transaction taking place, the working capital utilisation is expected to increase to support the manufacturing operations, going forward. The company has an operating cycle of 102 days as on March 31, 2022 (PY: 113 days). It usually has a collection period of 40-45 days, while it gets 20-25 days as a credit period from its suppliers. The company has to maintain a sufficient inventory with all the dealers, therefore the inventory days as on March 31, 2022, stood at 83 days (PY: 57 days). As on March 31, 2022, the company had cash and cash equivalents of ₹23 crore. The current ratio and quick ratio stood at 0.8x (PY: 1.74x) and 0.29x (PY: 1.22x), respectively, as on March 31, 2022. Furthermore, repayments for FY23 and FY24 are ₹54 crore and ₹75 crore, respectively.

#### **Analytical approach:** Standalone

#### **Applicable criteria**

[Criteria on assigning 'outlook' and 'credit watch' to credit ratings](#)

[CARE Ratings' policy on Default Recognition](#)

[Rating methodology – Wholesale trading](#)

[Rating methodology – Manufacturing companies](#)

[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](#)

## About the company

Hindware Limited (erstwhile Brilloca) is a part of the Somany group, under the leadership of Sandip Somany (Chairman), and is a wholly-owned subsidiary of Somany Home Innovations Limited. Hindware Limited was incorporated on November 02, 2017. Earlier, the demerger of AGI Greenpac Limited (erstwhile HSIL Limited) vide order dated November 10, 2017, led to a 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 Hindware Limited (Hindware, wholly-owned subsidiary of HHIL) effective from the appointment date of April 01, 2018. Pursuant to the vesting of the Building Products Distribution and Marketing Undertaking of AGI, Hindware Limited was engaged in the 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. Furthermore, in January 2022, the company announced the acquisition of the BPD manufacturing from AGI into Hindware through a slump-sale basis.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
TOI	1,262	1,795	NA
PBILDT	114	1,609	NA
PAT	72	117	NA
Overall gearing (times)	0.42	0.48	NA
Interest coverage (times)	6.62	23.78	NA

A: Audited; UA: Unaudited; NA: Not available.

**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	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	April 2027	460.00	CARE A+; Stable
Fund-based - LT-Cash credit		-	-	-	440.00	CARE A+; Stable
Non-fund-based - ST-BG/LC		-	-	-	95.00	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	460.00	CARE A+; Stable	-	1)CARE A+; Stable (March 22, 2022)	1)CARE A+; Stable (March 04, 2021)	1)CARE A+; Stable (March 02, 2020)
2.	Fund-based - LT-Cash credit	LT	440.00	CARE A+; Stable	-	1)CARE A+; Stable (March 22, 2022)	1)CARE A+; Stable (March 04, 2021)	1)CARE A+; Stable (March 02, 2020)
3.	Non-fund-based - ST-BG/LC	ST	95.00	CARE A1+	-	1)CARE A1+ (March 22, 2022)	1)CARE A1+ (March 04, 2021)	1)CARE A1+ (March 02, 2020)

\*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
<b>A. Financial covenants</b>	
I. Net debt/EBITDA	<=4.00x
II. DSCR	>=1.20x
III. Fixed asset coverage ratio	>=1.25x
IV. Interest coverage ratio	>=2.00x

**Annexure-4: Complexity level of 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](#).

**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](mailto:care@careedge.in) for any clarifications.

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