Hindware Home Innovation Limited

April 01, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	186.75	CARE A; Stable	Revised from CARE A+; Stable
Short-term bank facilities	110.00	CARE A1	Revised from CARE A1+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of Hindware Home Innovation Limited (HHIL) is considering the company's moderating financial risk in FY23 (refer to April 01 to March 31) and 9MFY24 (refer to April 01 to December 31) due to elevated debt levels and moderated debt coverage indicators largely due to debt addition for BPD acquisition in subsidiary Hindware Limited (HL), sluggish demand across all major business segments, and predominant losses in retail and consumer appliances division in HHIL, dragging down profitability on consolidated level.

HHIL depends on support flowing from its subsidiary Hindware Limited in form of dividend and unsecured loans to fund losses at a standalone level and is expected to continue over the near-to-medium term. CARE Ratings Limited (CARE Ratings) shall closely monitor the company's ability to become self-sustainable and revive loss-making consumer and retain divisions, which shall also remain critical from the credit perspective.

Ratings further remain constrained by margins susceptible to raw material price volatility, linkages with cyclical real estate sector and working capital intensive operations of the company owing to elongated collection period and high inventory levels, which is expected to liquidate gradually, leading to reducing working capital borrowings in the near term. However, CARE Ratings expects the company to sustain the ongoing industry cycle, basis its experienced management offering diversified products through its widespread marketing and distribution network, and Hindware's established market presence among leading players in sanitaryware, faucets, and kitchen appliances with its long track record of operations weathering out many downtrends over the period.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increasing consolidated total operating income (TOI) in subsequent years and improving profit before interest, lease rentals, depreciation, and taxes (PBILDT) margins from current levels to over 12% on a sustained basis
- Improving overall leverage such that the net adjusted debt to PBILDT is below 3x on sustained basis.

Negative factors

- Deteriorating capital structure with the net adjusted debt to PBILDT above 4.5x beyond FY24.
- Divestment in its wholly owned subsidiary, HL, leading to weakening financial position of HHIL.
- Significantly increasing debt position from support extended to group companies, leading to a deteriorating credit profile of HHIL and HL.

Analytical approach: Consolidated

CARE Ratings has considered a consolidated approach of HHIL and its subsidiaries, as all entities operate under a common management and have strong business and operational linkages with majority contribution coming from HHIL's subsidiary HL. HHIL has partly guaranteed debt obligation of its Joint Venture; Hintastica Private Limited, which has also been factored in the rating assessment. List of entities considered for consolidation is given in Annexure 6.

Outlook: Stable

Stable outlook reflects CARE Ratings' expectation that the company will continue to derive benefits from its established market presence and large marketing network, sequential improvement in HHIL's and HL's financial risk profile, and sustained growth in revenue, profitability and cash accruals, leading to improving capital structure and debt coverage indicators in the near-to-medium term.

Detailed description of key rating drivers:

Key strengths

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

Established marketing and distribution network
Over the years, the company 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 sanitaryware companies in India, with a network of more than 3,100 distribution partners supported by over 35,000 retail outlets. In the consumer product division (CPD) segment, the company has a vast network of 1,300+ distributors and 14,000+ retail outlets across India. The company's products are also sold through e-commerce platforms such as Amazon, Flipkart, Paytm, Snapdeal, and Tata CliQ. Its products have robust presence across modern retail format stores such as Reliance Digital, Walmart, Spencers, and Metro Cash and Carry. The company has undertaken strategic marketing initiatives to popularise products and enhance its presence on e-commerce platforms as an additional distribution channel. The company has owned and franchise large format retail stores, and online presence at www.evok.in and on other leading ecommerce platforms. The company operates through around 39 franchise large format retails stores under the EVOK brand.

Established market presence with diversified products portfolio
HHIL as a group has long-established presence of over six decades in the sanitaryware segment and achieved significant market share over the years in majority business verticals. The group is the leading sanitaryware player in India and is the second largest faucet player in the domestic market. It is among top players in kitchen chimney and air cooler segments. Its plastic pipes and fittings business is one of the fastest growing brands in India.

The company has a wide and diversified products portfolio across its three major business segment including Building Products Division through its wholly owned subsidiary- HL, CPD/consumer appliances business directly under HHIL including products such as kitchen appliances, sinks, water purifiers, water heaters, air coolers, and fans among others and retail Business (online and store-based furniture division) through subsidiary EVOK under the common mother brand name 'Hindware'. Earlier, the water heaters business was also run under HHIL's consumer product division. However, the business was transferred to its 50% joint venture (JV), Hintastica Private Limited (HPL), by way of a slump sale through a business transfer agreement in FY21.

Experienced management and long-established track record in the sanitaryware and glass industries
HHIL was started by Dr RK Somany and currently managed by his son Sandip, promoter, and chairman, who has over three decades of experience in the ceramics and glass industry. The extensive experience of the promoter in the business has helped develop the Hindware brand and establish relationship with customers and suppliers. The company's board is broad-based and has several independent professionals with vast industry experience in diverse backgrounds.

Key weaknesses

Moderating overall financial risk profile due to losses in retail and consumer division
The overall financial risk profile of the company, on a consolidated basis, moderated in FY23 and 9MFY24 owing to term debt addition of ₹403 crore for BPD acquisition, which came in FY23 and further due to moderation in coverage indicators linked to profitability and cash accruals, owing to slow demand across all major business segments and lower realisation, specifically in pipe segment and increased losses in retail and consumer appliances division in HHIL, mainly due to subdued demand and prices dragging down profitability.

The consolidated adjusted overall gearing moderated from 1.12x as on March 31, 2022, to 2.31x respectively as on March 31, 2023. Debt coverage indicators including interest cover and total adjusted debt to gross cash accruals (GCA) also moderated from 8.34x and 2.05x as on March 31, 2022, to 1.63x and 7.04x respectively as on March 31, 2023. CARE Ratings had already envisaged this moderation. In FY23, HHIL reported revenue growth of approximately 23% over FY22 to ₹2,853.74 crore and further reported ₹2,054 crore in 9MFY24 with PBILDT margin of 10.21% compared to 7.95% in FY23. Growth in top-line and margins is driven mainly by the building product segment, contributing around 80-85%, followed by 15-17% from CPD segment and remaining 1-3% from retail business. After factoring in the entire debt on a consolidated level and guaranteed debt of HPL, net debt to earnings before interest, taxes, depreciation, and amortisation (EBITDA) has moderated from 2.55x as on March 31, 2022, to 4.95x as on March 31, 2023.

Dependence on support from subsidiary Hindware Limited
HL is a wholly owned subsidiary of HHIL and generates significant portion of revenue and profitability of the group on a consolidated level. HL extends upward support to HHIL (on standalone level) as dividend distribution of ₹29.40 crore for FY23 (PY: ₹24.50 crore), further envisaged at ₹40 crore and ₹42.22 crore in projected years FY24 and FY25-FY26 and interest bearing (HDFC 1-year MCLR + 33 Bps) unsecured loans, which stood at ₹25 crore as on March 31, 2023 (PY: ₹17 crore) which further increased to ₹40 crore as on December 31, 2023. The company also has internal board approval to advance incremental loan of ₹30 crore, which can further increase, as the board deems fit. The support was utilised by HHIL partly to fund PBILDT loss of ₹11.30 crore incurred in 9MFY24 on a standalone level and remaining towards debt servicing. Going forward, further weakening credit risk of parent entity HHIL may adversely impact cash flows of HL and shall remain a key monitorable.

Margins susceptible to raw material price volatility and cyclical real estate sector
The key raw materials and fuels used by the company include brass, chrome plating, clay, and natural gas among others. However, the company does not have tie-ups or long-term arrangements for gas or energy procurement. Raw material cost constitutes around 55-70% of revenue, while power and fuel constitutes 3-4%. Thus, significant volatility in fuel prices (primarily natural

gas) and key input materials (clay, brass, and chrome plating) directly impacts cost of production, which may lead to moderating operating margins.

Further, the demand for the company's products is largely linked to the real estate sector, which is a cyclical industry. The demand for ceramics has risen in the recent past, owing to initiatives under Swachh Bharat Abhiyan (SBA), Pradhan Mantri Awas Yojana (PMAY) and higher replacement demand. Factors such as increasing urbanisation 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, among others, augur well for the industry. The sanitaryware market also witnessed a shift in consumer preference towards branded products, presenting growth opportunities for established players such as Hindware in the industry. Hindware maintains a strong presence in the mass and mid-market segments of the sanitaryware industry. However, there are many unorganised players in ceramic products and faucet market and established brands including 'Cera', 'Roca', 'Jaquar' in faucetware and 'Kajaria', 'Somany' in the tiles market, thus, the company's operations remain exposed to competitive nature of industry. However, the company's established presence and long-term association with institutional clients mitigates the risk to a large extent.

Working capital-intensive operations

The company's operations are working capital-intensive considering high inventory-holding requirements and elongated 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 held. The company's total inventory increased to ₹675.31 crore as on March 31, 2022, as compared to ₹280.18 crore as on March 31, 2021, post the BPD acquisition. Substantial increase in inventory was due to acquisition of the manufacturing division of AGI Greenpac Limited from March 31, 2022 (as a part of the slump sale inventory of ₹234 crore was acquired), and higher inventory stock up due to expected robust demand from real estate upcycle.

In consumer appliances business (CAB) and bathware segments, working capital cycle is elongated above 120-150 days, while in retail and pipe segment, working capital cycle is comparatively effective around 80-100 days. Historically, the company's trade receivables remained on the higher side, there has been a reduction in collection days to 44 days in FY23 (PY: 57 days). The creditor days also remained in same range and reported at 38 days in FY23 compared to 34 days in FY22. Working capital cycle for FY23 stood at 110 days compared with 114 days in FY22. However, it is still at a higher level, which resulted in sufficient reliance towards working capital borrowings. The company's working capital borrowings stood at around ₹298.04 crore (PY: ₹130.44 crore) as on March 31, 2023.

Liquidity: Adequate

The company's liquidity profile is adequate, with average working capital utilisation of around 67% for 12-months ending January 2024, leaving sufficient buffer in working capital limits. The company has an operating cycle of 110 days as on March 31, 2023 (PY: 114 days) as it has to maintain sufficient inventory in display showrooms and also with all dealers for BPD and CPD segments, therefore inventory days post transfer of inventory from acquisition of BPD manufacturing in FY22. Inventory holding reported at 104 days as on March 31, 2023, elongated due to averaging and high base effect in FY22. As on September 30, 2023, the company had cash and cash equivalents of ₹6.90 crore, which aids to liquidity surplus. Furthermore, the company, on a consolidated level, has a repayment due (including lease liability) of close to ₹117 crore in FY24, which has been entirely paid and around ₹125 crore in FY25, which is expected to be comfortably met out of expected cash accruals of ₹179 crore in FY24 and ₹231 crore in FY25.

Environment, social, and governance (ESG) risks: The bathware and pipes manufacturing industries are energy-intensive and manufacturing process results in higher carbon emissions and other environmental risks. On the social front, the company is exposed to health and safety effects of its operations on the society and its employees and changing preferences of end-users requiring investments as support and contribution to the community affected in and due to the manufacturing process. The annual report for FY23 highlights the below initiatives undertaken by the company:

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

HHIL is contributing towards reducing environmental impact of products by investing in energy-efficient products such as BLDC Fans with Low power consumption, BLDC Chimney with higher suction and low power Consumption, Water Wastage Reduction in RO Water Purifiers, Local production of Chimney to reduce carbon footprints in transportation costs from China and Noise Reduction from chimneys to make them convenient for consumers.

Social: Social risks in the industry stem from health and safety concerns of employees involved in management of clay, among other things. At regular intervals, the company provides necessary safety and skill upgrading training to its permanent and contractual employees. It earlier 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, after building nearly 170 toilets in the last two years majorly in-and-around Haryana and Rajasthan, the brand pledged to build an additional 80 more toilets in the year.

Governance: The Company is managed and controlled by a professional Board comprising a blend of Executive and Non-executive professional Directors with considerable professional expertise and experience which provides leadership and guidance to the management. As on March 31, 2023, the Board of Directors consisted of seven Directors, of which, four are Independent Directors, two (28.57%) are Non-Executive Non-Independent Directors and one (14.29%) is Executive Director.

Applicable criteria

Policy on default recognition
Consolidation
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 and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer durables	Consumer durables	Sanitary ware

HHIL formerly known as Somany Home Innovations Limited was incorporated in 2017 and is a part of the Hindware group (earlier known as Somany Impressa Group) led by Sandip Somany (Chairman). HHIL is also the holding company of HL (formerly known as Brilloca Limited). HHIL and Hindware were created post demerger of AGI Greenpac Limited (erstwhile HSIL Ltd) in 2017. Pursuant to vesting of CPD distribution and marketing division of AGI Greenpac Limited, HHIL now engaged in branding, marketing, sales, distribution, trading, and servicing, among others, consumer products such as air purifiers, air coolers, kitchen appliances, water heaters, exhaust fans, and water purifiers, among others, and retail business, consisting of branding, marketing, sales, distribution, trading, servicing, , among others, furniture, furnishings, and home décor, among others. HL is handling the BPD distribution and marketing segment and took over manufacturing of the BPD segment in FY22, through a slump sale transaction for a consideration of around ₹699.96 crore for comprehensive bathroom solutions. This includes 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, among others.

Brief Financials (₹ crore)- Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	489.02	552.06	2,054.33
PBILDT	10.60	8.26	209.73
PAT	12.69	10.60	29.86
Overall gearing (times)	1.94	1.41	Not Available
Interest coverage (times)	0.65	0.41	2.98

A: Audited UA: Unaudited; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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 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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	12.75	CARE A; Stable	-	1)CARE A+; Stable (03-Jan-23)	1)CARE A+; Stable (22-Mar-22)	1)CARE A+; Stable (04-Mar-21)
2	Fund-based - LT-Cash Credit	LT	174.00	CARE A; Stable	-	1)CARE A+; Stable (03-Jan-23)	1)CARE A+; Stable (22-Mar-22)	1)CARE A+; Stable (04-Mar-21)
3	Non-fund-based - ST-BG/LC	ST	110.00	CARE A1	-	1)CARE A1+ (03-Jan-23)	1)CARE A1+ (22-Mar-22)	1)CARE A1+ (04-Mar-21)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities- Not applicable

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Rationale for consolidation (% Shareholding by HHIL)	Extent of consolidation
1.	Evok Homes Private Limited, India	100.00%	Full
2.	Luxxis Heating Solutions Private Limited, India	100.00%	Full
3.	Hindware Limited, India	98.20%	Full
4.	Halis International Limited, Mauritius	98.20%	Full
5.	Queo Bathroom Innovations Limited, UK (subsidiary of Halis International Limited)	98.20%	Full
6.	Truflo Pipes Limited, India	98.20%	Full
7.	Hintastica Private Limited (JV), India	50.00%	Proportionate

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

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About us:
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