Somany Home Innovation Limited

March 22, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	186.75 (Enhanced from 168.25)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	110.00 (Enhanced from 85.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**296.75 (Rs. Two Hundred Ninety-Six Crore and Seventy-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

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.

These rating strengths, however, are partially offset by its working capital-intensive nature of its operations, susceptibility of the company to volatility in in fuel prices, raw material cost and foreign exchange rate fluctuations. The ratings are also constrained by its, linkages to cyclical real estate sector and presence in a competitive industry. The ratings also take into cognizance the impending transaction pertaining to acquisition of business of manufacturing, of sanitaryware, faucets and plastic pipes (PVC and CPVC) and fittings (BPD Undertaking) from group company; HSIL Ltd on a slump sale basis, for a lump sum consideration of Rs 630.00 crore by Brilloca Ltd (100% subsidiary of SHIL Ltd). The said deal is expected to lead to increased indebtedness in the company at consolidated level, albeit, accompanied by increase in PBILDT margins as the manufacturing margins currently being paid to HSIL Ltd shall be booked in SHIL consolidated (under Brilloca Ltd) going forward. The increased leverage will though result in the moderation of its capital structure, CARE is however drawing comfort from the enhanced profitability and long tenured debt repayments leading to comfortable debt service coverage indicators

Rating Sensitivities

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

- Increase in consolidated TOI by more than 25% in the projected years and improvement in its PBILDT Margins from the current levels 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 1.60x in the projected period.
- Any dis-investment in its wholly owned subsidiary (i.e. Brilloca Limited) which leads to weakening of the financial position of SHIL Ltd.

Detailed description of 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 through its subsidiary company, Brilloca Ltd. Further, it is among top 2 players in the kitchen chimney segment and also its

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

group company, HSIL Limited, is one of the leading glass container manufacturers in India. Group'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 (through its subsidiary Brilloca Ltd) 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.
Going ahead, with acquisition of manufacturing of BPD segment into SHIL (through Brilloca) is expected to further strengthen the business profile of the company on consolidated basis, on account of synergies from control over manufacturing processes, enhanced flexibility and reduction in dependence on third party vendors.

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 has also launched Snowcrest Air Coolers.
Earlier, the business of water heater was under consumer product division of Somany Home Innovation Limited (SHIL). However, the business was transferred to its joint venture Hintastica Private Limited (HPL) by way of slump sale through business transfer agreement between the company and HPL. Company is having a product sourcing tie-up with global player Groupe Atlantic (Europe's leading brand in heating solutions) for water heaters. 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 39 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 3100+ distribution partners supported by 35,000+ retail outlets for plastic pipes and fitting business.
In CPD segment, the company has a vast network of 750+ distributors and 9,650+ retail outlets across India. Company's products are also sold through ecommerce 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. Company have undertaken strategic marketing initiatives to popularize products and to enhance presence on various ecommerce platforms as an additional distribution channel. Further, 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. Company operate through around 39 franchise large format retails stores under EVOK brand.

Comfortable financial risk profile, albeit, expected moderation in capital structure post slump sale transaction
During FY21, company has witnessed about 10% growth in total income with sales of Rs.1788 cr as against Rs.1633.41 crore in FY20, despite the impact of covid-19. Of the total revenues, the Consumer Appliance business reported revenue of Rs.455 crore while the Retail business reported a revenue of Rs.59 crore, with the Building Products business contributing Rs.1,262 crore. PBILDT Margin of the company for FY21 stood at 8.74% as against 6.65% in FY20. The improvement has been mainly on back of initiatives such as portfolio expansion in sanitaryware and faucets as well as geographical expansion into newer territories. Further, the employee, selling and other expenses have also declined during the year.
Going forward, Since SHIL through its subsidiary Brilloca Ltd was already engaged in sale of BPD products manufactured by HSIL under an agreement, the incremental asset base shall not lead to any increase its revenue going forward. There shall however be a positive impact on PBILDT margin of about 3-4% in the near to medium term on account of accrual of the manufacturing margins which it earlier used to pay to HSIL Ltd.

The consol overall gearing as on March 31, 2021 stood at 0.80x as compared to 1.61x as on March 31, 2020, mainly due to lower working capital utilization.
With increased indebtedness in FY23, overall gearing ratio and Total Debt/PBILT shall deteriorate temporarily till the additional debt is paid off out of accrual generation. CARE is however drawing comfort from the enhanced profitability and long tenured debt repayments leading to comfortable debt service coverage indicators which are expected to remain above 2x in the medium term.

In 9MFY22 (refers to period from April 01 to Dec 31), the company reported a growth of ~38% in total operating income and stood at Rs.1631 crore. However, on profitability front, the company reported PBILDT margin of 8.40% as against 7.83% in 9MFY21. The improvement in profitability was largely due to washout impact of covid first wave which affected Q1 and Q2FY21 significantly. The logistics issues were comparatively lower, less impactful and for shorter duration in Q1FY22.

Reduction in 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). Later, 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.
Under the said arrangement, HSIL Limited constituted around 54% (PY: 44%) of its total purchases in BPD segment in FY21, leading to high dependence and related party transactions with the company which is expected to reduce significantly from FY23 onwards. With the proposed transaction, the Building Products division's entire operating facilities of HSIL will be transferred to Brilloca Ltd leaving apart some land parcels on which Brilloca Ltd. will continue to pay lease rentals to HSIL Ltd.

Liquidity: Adequate
The liquidity profile of the company is adequate with the average working capital utilization of ~63% for the last 12 months ending Dec-2021 leaving sufficient buffer in the working capital limits. The increased accruals so far have been supporting the working capital requirements of Brilloca Ltd but with the slump sale transaction taking place, the working capital utilization is expected to increase to support the manufacturing operations going forward. The company has an operating cycle of 124 days as on March 31, 2021 (PY: 127 days). The company usually have collection period of 75-80 days while its gets 30-35 days as credit period from its suppliers. The company has to maintain sufficient inventory in its display showrooms and also with all the dealers for the BPD and CPD segments, therefore inventory days as on March 31, 2021 stood at 73 days (PY: 79 days).
As on March 31, 2021, the company had cash and cash equivalents of Rs.33.24 crore (~Rs.26 cr in mutual funds) while as on Jan 31, 2022, the company had cash and cash equivalents of ~Rs.80 crore. Current ratio and quick ratio stood at 1.42x (PY: 1.28x) and 0.93x (PY: 0.79x) respectively as on March 31, 2021. Further, the company at consolidated level has repayment due of Rs.34.50 crore in FY22, out of which Rs.33 crore which has been repaid till December 31, 2021. For FY23, at consolidated level the repayments are expected to increase to Rs.56 crore. The envisaged improvement in cash accruals going forward shall be crucial for maintaining the overall liquidity and financial profile of the company within comfortable levels.
Further, expected repayments for FY23 & FY24 in SHIL (consol including guaranteed debt of HPL) are in the range of Rs.58.50 cr to Rs.76.8 cr.

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 stood at around Rs.280.18 crore as on March 31, 2021 as compared to Rs.310.16 crore as on March 31, 2020. The increase in inventory as on FY20 end is mainly due to loss of sales in latter half of March 2020 due to nationwide lockdown which resulted in pile up of inventory. Further, in BPD segment the company has been paying within 15 days to HSIL while the credit days as on FY21 in BPD segment stood at 35 days. Further the overall credit days in SHIL at consolidated level stood at 28 days.
Trade receivables of the company are also on the higher side as most of the sales of the company are done through its retail outlets. Trade receivables of the company stood at around Rs.407.65 cr as on Mar 31, 2021 as against Rs.359.18 as on March 31, 2020. 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. Working Capital borrowings of the company stood at around Rs.141.86 crore as on March 31, 2021. The increased accruals so far have been supporting the working capital requirements of Brilloca Ltd but with the slump sale transaction taking place, the working capital utilization is expected to increase to support the manufacturing operations going forward.

Susceptibility of the company to volatility in the raw material prices
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. It is to be noted that the prices of brass have doubled over the past 1 year. The company is also exposed to volatility in the prices of the traded goods in the BPD segment 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 has been able to largely pass on any increase in the cost of raw materials & other operating cost with some lag 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.

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. On the back of Covid pandemic, there was significant decline in its scale of operations in Q1FY21 and during the second wave of Covid pandemic, its scale of operations was again impacted in Q1FY22 on the back of slowdown in the real estate sector. 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 Brilloca (100% held by SHIL Ltd) in the industry. Brilloca 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+).
Further, SHIL has partly guaranteed the debt obligation of its JV; HPL which has also been factored in the rating assessment.

Note: 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%
4	Hintastica Private Limited	50%
5	Halis International Ltd.	100% (Subsidiary of Brilloca)
6	Queo Bathroom Innovations Ltd.	100%

Applicable Criteria
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's 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]
[Rating Methodology: Consolidation]

About the company
Somany Home Innovation 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.
In FY21, the company has sold of 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 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. Further, recently in Jan-22, the company has announced acquisition of BPD manufacturing from HSIL into Brilloca through slump sale basis.

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

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (Prov.)
Total operating income	1633	1788	1631
PBILDT	109	156	137
PAT	23	55	164
Overall gearing (times)	1.61	0.89	NA
Interest coverage (times)	3.26	5.30	9.13

A: Audited; Prov.: Provisional; NA: Not available

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

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

Complexity level of 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Dec-2026	12.75	CARE A+; Stable
Fund-based - LT-Cash Credit		-	-	-	174.00	CARE A+; Stable
Non-fund-based - ST-BG/LC		-	-	-	110.00	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	12.75	CARE A+; Stable	-	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 (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+ (04-Mar-21)	1)CARE A1+ (02-Mar-20)	-

* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. Net Debt/ EBIDTA	<=4.00x
II. DSCR	>=1.20x
III. Fixed asset coverage ratio	>=1.25x
IV. Interest coverage ratio	>=2.00x
B. Non financial covenants	
I. Routing through lender	Atleast 60% of collections to be routed through lender

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 bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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.

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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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