

Somany Home Innovation Limited

January 24, 2022

Update on acquisition of HSIL's BPD Undertaking via slump sale

The company has intimated stock exchanges on Jan 15, 2022 regarding acquisition of HSIL Ltd's business of manufacturing, on contract basis, of sanitaryware, faucets and plastic pipes (PVC and CPVC) and fittings (BPD Undertaking) by Brilloca Limited (Brilloca; wholly owned subsidiary of SHIL), on a slump sale basis, for a lump sum consideration of Rs 630.00 crore. With the proposed transaction, the Building Products division's entire operating facilities of HSIL will be transferred to Brilloca Ltd (and SHIL) leaving apart some land parcels on which Brilloca Ltd. will continue to pay lease rentals to HSIL Ltd. Going forward, Brilloca will emerge as BPD arm of Somany group, engaged in entire value chain from manufacturing to marketing.

The entire consideration will be paid by Brilloca in Cash to HSIL Ltd. The transfer of such asset base will provide synergistic benefits by way of backward integration. Brilloca will pay the consideration by funding through a LT debt of close to Rs 350-400 crore and balance by internal accruals and Working capital. This is expected to lead to increased indebtedness in the company, albeit, accompanied by increase in PBILDT margins as the manufacturing margins currently being paid to HSIL Ltd shall be booked in Brilloca going forward.

The agreement for slump sale is yet to be executed. The transaction is subject to the satisfactory completion of the condition's precedent by the parties (including receipt of approval of the shareholders, lenders, and other necessary approvals required for the slump sale) in accordance with the provisions of the business transfer agreement to be executed. The transaction is expected to be completed by March 31, 2022. CARE has taken into account the said announcement by the company and will continue to closely monitor the progress of the said deal.

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 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, susceptibility of the company to volatility in the prices of traded goods, linkages to cyclical real estate sector and presence in a competitive industry. The previous press release is available on the following link: [Click here](#)

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+).

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%

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