

Somany Home Innovation Limited

March 02, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	159.00	CARE A+; Stable [Single A Plus; Outlook: Stable]	Assigned
Short Term Bank Facilities	20.00	CARE A1+ (A One Plus)	Assigned
Total facilities	179.00 (Rs. One Hundred Seventy Nine crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Somany Home Innovation Limited (SHIL) derives strength from its experienced promoters and their long track record of operation with recognized brand name in sanitary ware & consumer product segments. The ratings assigned also takes into 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.

Rating Sensitivities

Going forward, SHIL's ability to attain the profitable growth without any adverse impact on its capital structure, , further strengthening its market position and effective management of its working capital requirements, would be the key rating sensitivities.

Positives

- Increase in TOI by more than 20% in the projected years and improvement in its PBILDT Margins from the current levels on a sustained basis.
- Ability of the company to manage its working capital requirements and to maintain its capital structure with increase in scale of operations

Negatives

- Deterioration in its capital structure with overall gearing of more than 1.50x in the projected period.
- Any dis- investment in its wholly owned subsidiary (i.e. Brilloca Limited)
- Any Change in terms for procurement of trading material 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.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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 the leading sanitary ware player in India and is one of the largest faucet players 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 has started CPVC/ UPVC pipes and fittings in FY19 (refers to period from April 01 to March 31) and recently 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 such as water closets, wash basins, pedestals, squatting pans, urinals, cisterns, bidets, showers, bathroom faucets, kitchen 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. Company has applied for 20 patents across various categories and has launched IOT enabled products in November 2019 in category of water purifiers, Water Heaters and Kitchen Chimneys. Under Retail Division, Company offer speciality 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.

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 retail points across India for all businesses. Company is having largest network spread amongst the bathware 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 750+ distributors and 9,650+ 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 30 (owned and franchise) large format retail stores under EVOK brand.

Comfortable financial risk profile

During FY19, company has generated a total sales of Rs. 1664.30 crore (consol) and around 76% of the contribution is coming from Building product Division (through its wholly owned subsidiary, Brilloca Limited), around 18% of its sales coming from CPD Division and remaining around 5% of its revenue from retail segment. Company is generating healthy gross margins across all division and Combined gross margin for FY19 stood at around 35%.

PBILDT Margin of the company for FY19 was stood at 7.07%. PBILDT Margin of the company was lower as compared to its peers as company is diversifying its product portfolio and incurring considerable marketing and promotional expense, resulting into low profitability margins. Company has started CPVC/ UPVC pipes and fittings in FY19 and recently forayed into premium and super premium tiles business with brand Neom in 2019. Further, in CPD segment, company is in initial stages of its operations. (Consolidated) PAT of the company for FY19 stood at Rs. 54.70 crore.

Post demerger of HSIL Limited, Rs. 50 crore of long term debt was taken by SHIL (Consol). Working Capital Borrowings of the company stood at Rs. 252.54 crore as on March 31, 2019. Overall Gearing of the company was adequate and stood at 1.19x as on March 31, 2019.

During 9MFY20, company has generated total operating income of Rs. 1260.34 crore at a PBILDT Margin of 6.95%. Total debt of the company decreased from Rs. 302.70 crore as on March 31, 2019 to Rs. 212.50 crore as on Dec 31, 2019.

Liquidity: Strong

Company is having strong liquidity. It has Cash and Bank Balance of Rs. 21.54 crore as on Sep 30, 2019 and sufficient unavailed limits in the sanctioned fund based and non-fund based limits. The company is generating healthy cash accruals for its planned capex and doesn't have long term debt repayment obligations in FY20 and debt repayment obligations of Rs. 2.50 crore in FY21. GCA of the company for FY19 stood at Rs. 61.67 crore. Current Ratio of the company was comfortable and stood at 1.29x as on March 31, 2019. Interest Coverage Ratio of the company for FY19 was strong and stood at 4.13 times. Total debt to GCA of the company also remains comfortable and stood at 4.91x for FY19.

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. Company has to hold and maintain sufficient inventory of its large portfolio of products across its retail outlets. This resulted in high inventory. Total inventory of the company stood at around Rs. 279 crore as on March 31, 2019 and Rs. 297 crore as on Dec 31, 2019.

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. 356 crore as on March 31, 2019 and Rs. 404.24 crore as on Dec 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. Working Capital borrowings of the company stood at around Rs. 253 crore, which is around 15% of its total operating income in FY19.

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 76% of its income from BPDM segment in FY19 and Brilloca Ltd. procured around 60% of its traded goods for sanitaryware (BPD Segment) from HSIL Ltd in FY19. Therefore company is having significant dependence on HSIL Limited for the procurement of traded goods under BPD Segment.

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). Further, the ratings also factor in the business & operational linkages with its group company HSIL Ltd.

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%

Applicable Criteria

[CARE's Criteria on assigning Outlook and Credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for Short-term Instruments](#)

[CARE's methodology for financial ratios \(Non Financial sector\)](#)

[Rating Methodology- Wholesale Trading](#)

[Rating Methodology- Consolidation and Factoring Linkages in Ratings](#)

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.

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

Brief Financials (Rs. crore)	FY18 (A)- Pre Demerger	FY19 (A)- Post Demerger
Total operating income	0.00	1664.29
PBILDT	-0.06	117.66
PAT	-0.06	54.70
Overall gearing (times)	1.60	1.13
Interest coverage (times)	NM	4.13

A: Audited; NM: Not Meaningful

Status of non-cooperation with previous CRA: NA

Any other information: NA

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	15.00	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	144.00	CARE A+; Stable
Non-fund-based - ST-BG/LC	-	-	-	20.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	15.00	CARE A+; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	144.00	CARE A+; Stable	-	-	-	-
3.	Non-fund-based - ST-BG/LC	ST	20.00	CARE A1+	-	-	-	-

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

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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