

Rating Rationale

December 22, 2023 | Mumbai

Somany Ceramics Limited*Ratings reaffirmed at 'CRISIL AA-/Stable/CRISIL A1+'***Rating Action**

Total Bank Loan Facilities Rated	Rs.425 Crore
Long Term Rating	CRISIL AA-/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AA-/Stable/CRISIL A1+' ratings on the bank facilities of Somany Ceramics Ltd (SCL; a part of the Somany group).

The rating continues to reflect group's strong business risk profile supported by strong brand presence in the tile industry in the organised segment and diversified product portfolio.

SCL reported revenue growth of ~18% in fiscal 2023, to Rs. 2481 crore in fiscal 2023 against Rs. 2093 crore in fiscal 2022. Till Sep 2023 company has achieved revenue of Rs. 1242 cr. and is expected to achieve revenue of Rs.2500-2600 cr. for the full year. Due to the muted demand which the overall industry is witnessing. Growth will largely be driven better price realization owing to multiple price hike undertaken by SCL during last one year. Further, the capacity expansion of 11 SQM in Kassar, Gujarat Plant and southern plant has successfully been commissioned during July, 2023. Consequently, total installed capacity has improved to ~62 MSM per year in fiscal 2023 (access to capacity of 80 MSM). Though, timely ramp-up of enhanced capacities remains key monitorable. Operating margins of the company has declined to 7.68% in FY23 from 9.98% in FY22, due to increase in the raw material prices, rising fuel cost etc. However, as the gas prices have started to come down from Q1 onwards the margins in H1FY24 has improved to 9.24% from 7.41% in H1FY23 which is expected to improve to remain to more than 9% for the fiscal 2024. Sustenance of improved sales growth along with improvement in profitability levels over the medium term will remain a key rating sensitivity factor.

The ratings continue to reflect the Somany group's established market position in the domestic tile industry, its well-diversified geographical reach and customer base, and comfortable financial risk profile. These strengths are partially offset by exposure to intense competition and cyclicalities in the real estate segment, and fluctuations in prices of raw material and natural gas.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of SCL, its joint ventures and associate companies – SR Continental Limited, Somany Bathware Limited, Somany Excel Vitrified Pvt. Ltd., Amora Tiles Pvt Ltd (ATPL), Somany Sanitary Ware Pvt Ltd (SSWPL), Acer Granito Pvt Ltd (AGPL), Vicon Ceramic Pvt Ltd (VCPL), Vintage Tiles Pvt Ltd (VTPL), Somany Bath Fittings Pvt Ltd (SBFPL), Sudha Somany Ceramics Pvt Ltd (SSCPL) and Somany Piastrelle Private Limited (SPPL), SRCL Buildwell Pvt. Ltd., Somany Max Pvt. Ltd. This is because SCL has investments in all these entities, and purchases finished material from them, to be marketed under its own brand. All the entities are collectively referred to as the Somany group.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Established market position in the domestic tiles industry, backed by strong brand and distribution network :** The group is a leading player in the Indian tiles industry, with annual capacity of about 62 MSM (access to capacity of 80MSM). Over the years, the management has established several brands, including Somany, Somany Vitro, Somany Duragres, Somany VC and Somany French Collection. These brands cater to various price ranges and enjoy strong recall. The group has reported the revenue of Rs. 2481 crore in fiscal 2023 against Rs.2093crore in fiscal 2022. Till Sep 2023 the company has achieved revenue of Rs. 1242 cr. and is expected to achieve revenue of Rs.2500-2600 cr. for the full year. Due to the muted demand which the overall industry is witnessing.
- **Diversified geographical and customer base:** The group caters to both dealers and institutional sellers. The latter, however, comprises only 30-35% of overall sales, thereby ensuring lower pressure on working capital management. Additionally, in the retail segment, the distribution network includes about 14,000 touch points across India, with about 3000 active dealers and 450 showrooms. The group plans to add 100-150 dealers every year. Presence in northern India remains strong, which accounted for over 46% of total revenue in fiscal 2023; the western and southern regions accounted for around 9% and 25%, respectively.
- **Healthy financial risk profile due to efficient working capital management and asset-light model:** Total outside liabilities to adjusted networth ratio was estimated to be strong at 1.25 times as on March 31, 2023, supported by high accretion to reserves, efficient working capital management and asset-light model. Gross current assets remained to 124 days as on March 31, 2023, driven by receivables and inventory days of 40 days from 62 days. Debt protection metrics were robust, with interest coverage and net cash accrual to adjusted debt ratios of 4.7 times and 25%, respectively, in fiscal 2023. Despite debt-funded capital expenditure (capex) undertaken in the recent past the financial risk profile is expected to improve owing to sustained profitability and high accrual. In FY24 company is planning to buy back shares worth Rs. 125 crores in FY24 buyback is to be proposed to reward the equity shareholders, the cost of buy back will be funded through the liquid funds available with the company.

Weaknesses:

- **Exposure to intense competition and cyclicity in the real estate segment:** The ceramic tiles industry is intensely competitive with many unorganised players. However, with closure of ceramic units running on coal gasifiers, and implementation of GST and Real Estate (Regulation and Development) Act, 2016, market share of organised players has expanded recently.

Despite being a leading player, the Somany group has to compete with other reputed brands such as Kajaria Ceramics Ltd, H & R Johnson (India) (a division of Prism Cement Ltd), Asian Granito India Ltd, and Orient Bell Ltd (rated 'CRISIL A/Stable/CRISIL A1'). Hence, the ability to pass on any increase in raw material cost remains a key rating sensitivity factor. Also, any moderation in demand from real estate entities results in pricing pressure and lower offtake.

- **Vulnerability to fluctuations in raw material and natural gas prices:** Raw materials comprise 45-50% of total operating cost, while gas and power costs account for 20-25%. Hence, even a slight variation in input prices can drastically impact profitability. The power and fuel cost has gone up to 26.33% in FY23 from 22.98% in FY22 due to the unexpected movement in the gas prices. Backed by stringent cost control and volume-led growth. The Company also intends to absorb raw material costs through higher operational efficiency and judicious price increases.

Liquidity: Superior

Bank limit utilization was negligible, averaging around 1-2% over the twelve months ended Sep-23. Expected cash accrual of over Rs 150 crore, should suffice to cover the term debt obligation of Rs 45-60 crore. Current ratio was moderate at 1.09 times as on March 31, 2023. The healthy cash balance and liquid investments worth Rs 186 crore as on March 31, 2023, aid overall liquidity. However, the company is planning to buy back shares to reward the existing equity shareholders which would be reduce the liquid funds to more than Rs.125 crores. Low gearing and moderate networth support financial flexibility, to raise additional debt in case of any adverse business scenario.

Outlook: Stable

RISIL Ratings believes the Somany group will continue to benefit from its established market position, strong distribution network, and enhanced financial risk profile.

Rating Sensitivity factors**Upward factors:**

- Sustained improvement in the revenue of the company with improvement in operating margins by at least 300 basis points leading to net cash being better than anticipated.
- Prudent working capital management, reducing receivables and debt levels .

Downward factors:

- Decline in operating income or drop in operating margin below 7%, resulting in significantly low cash accrual and weakening the financial risk profile.
- Any major debt-funded capex, straining the capital structure or increase in working capital requirement weakening the financial risk profile.

About the Group

SCL was incorporated in 1968, as Somany Pilkington's Ltd (SPL), promoted by Mr H L Somany in collaboration with the UK-based Pilkington's Tiles Plc (PTP). The Somany family purchased PTP's stake in SPL in 1971 and the name was changed to the current one. SCL is listed on the Bombay Stock Exchange and National Stock Exchange. Mr Shreekant Somany is the chairman and managing director, and Mr Abhishek Somany, the Managing Director.

SCL manufactures ceramic tiles and glazed vitrified tiles, and trades in polished vitrified tiles, along with sanitary ware and bathroom fittings. SCL group has a combined tile manufacturing capacity of 62 MSM p.a. (access to tiles capacity upto 80 MSM) SCL group has two of its own manufacturing units at Kadi (Gujarat) and Kassar (Haryana); Six ancillary units of associates / subsidiaries and arrangements with other manufacturers. Own manufacturing accounts for approximately 50% of the total production, remaining is contributed by JVs and arrangement with other manufacturers. The company sells products under brands such as Somany, Somany French Collection, Somany Vitro, Somany Duragres, Somany VC, Somany Signature, Somany Glosstra, and Somany Slip Shield.

Majority-owned subsidiaries, ATPL and ACPL, manufacture ceramic wall glazed tiles, while SFVPL manufactures vitrified floor tiles. AGPL, in which SCL has a 26% stake, manufactures soluble salt and double charge vitrified tiles. All these subsidiaries/joint ventures have plants in Morbi (Gujarat). The plant under SSCPL (60 % stake held by SCL) also commenced production on March 27, 2019, at Andhra Pradesh, and manufactures glazed vitrified tiles. In May 2018, SCL also acquired 51% stake in SBFPL, which manufactures and sells bath fittings such as faucets and showers.

Sudha Somany Ceramics Private Limited (SSCPL) is engaged in manufacturing of glazed vitrified tiles with installed capacity of 3.5 Million Square per Meter (MSM) per annum.

Somany Max Private Limited (SMPL) is subsidiary company of Somany ceramic s with approx. 80% (approx.). SMPL is in the process of setting up a manufacturing facility for larges tiles/slab

Key Financial Indicators: Consolidated:

As on / for the period ended March 31		2023	2022
Operating income	Rs crore	2480.9	2,094.4
Reported profit after tax	Rs crore	66.92	93.41
PAT margins	%	2.70	4.46
Adjusted Debt/Adjusted Net worth	Times	0.55	0.62
Interest coverage	Times	4.72	7.05

CRISIL Adjusted numbers

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of allotment	Coupon Rate (%)	Maturity date	Issue size (Rs. Crore)	Complexity Level	Outstanding rating with Outlook
NA	Letter of Credit	NA	NA	NA	70.0	NA	CRISIL A1+
NA	Cash Credit	NA	NA	NA	160.0	NA	CRISIL AA-/Stable
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	195	NA	CRISIL AA-/Stable

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Somany Ceramics Limited	Fully consolidated	Parent Company
Amora Tiles Private Limited	Fully consolidated	Subsidiary company
Somany Bathware Limited	Fully consolidated	Subsidiary company
SR Continental Limited	Fully consolidated	Subsidiary company
Somany Excel Vitrified Pvt. Ltd.	Fully consolidated	Subsidiary company
Acer Granito Private Limited	Fully consolidated	Subsidiary company
Sudha Somany Ceramics Private Limited	Fully consolidated	Subsidiary company
Somany Sanitary Ware Private Limited	Fully consolidated	Subsidiary company
Vicon Ceramic Private Limited	Fully consolidated	Subsidiary company
Vintage Tiles Private Limited	Fully consolidated	Subsidiary company
Somany Bath Fittings Private Limited	Fully consolidated	Subsidiary company
SRCL Buildwell Pvt. Ltd.	Fully consolidated	Subsidiary company
Somany Max Pvt. Ltd.	Fully consolidated	Subsidiary company
Somany Piastrelle Private Limited	Fully consolidated	Subsidiary company

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	355.0	CRISIL AA-/Stable	12-01-23	CRISIL AA-/Stable	03-10-22	CRISIL AA-/Stable	12-07-21	CRISIL AA-/Stable		--	CRISIL AA-/Stable
			--		--	27-09-22	CRISIL AA-/Stable	26-03-21	CRISIL AA-/Stable		--	CRISIL AA-/Stable
Non-Fund Based Facilities	ST	70.0	CRISIL A1+	12-01-23	CRISIL A1+	03-10-22	CRISIL A1+	12-07-21	CRISIL A1+		--	CRISIL A1+
			--		--	27-09-22	CRISIL A1+	26-03-21	CRISIL A1+		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	75	Punjab National Bank	CRISIL AA-/Stable
Cash Credit	35	Kotak Mahindra Bank Limited	CRISIL AA-/Stable
Cash Credit	35	HDFC Bank Limited	CRISIL AA-/Stable
Cash Credit	15	ICICI Bank Limited	CRISIL AA-/Stable
Letter of Credit	15	Kotak Mahindra Bank Limited	CRISIL A1+
Letter of Credit	15	HDFC Bank Limited	CRISIL A1+
Letter of Credit	5	ICICI Bank Limited	CRISIL A1+
Letter of Credit	35	Punjab National Bank	CRISIL A1+
Proposed Fund-Based Bank Limits	195	Not Applicable	CRISIL AA-/Stable

Criteria Details

Links to related criteria
The Rating Process
Understanding CRISILs Ratings and Rating Scales
Rating Criteria for Construction Industry
CRISILs Criteria for Consolidation

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com</p> <p>Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com</p> <p>Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com</p>	<p>Himank Sharma Director CRISIL Ratings Limited D:+91 124 672 2152 himank.sharma@crisil.com</p> <p>Smriti Singh Manager CRISIL Ratings Limited B:+91 124 672 2000 smriti.singh@crisil.com</p> <p>Naman Jain Manager CRISIL Ratings Limited B:+91 124 672 2000 Naman.Jain@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

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