October 13, 2017

Somany Ceramics Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Commercial Paper	125.00 (enhanced from 90.00)	[ICRA]A1+; assigned/outstanding

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the short-term rating of [ICRA]A1+ (pronounced as ICRA A one plus) for the Rs. 125.00-crore[1] (enhanced from Rs. 90.00-crore) CP programme of Somany Ceramics Limited (SCL)[2].

Rationale

The rating action continues to take into account SCL's strong brand, established market position and strong financial profile that have resulted in a very strong credit profile over the years. Aided by equity infusion in the previous years and low debt levels, the company's gearing has remained less than 0.5 times in the last two years. Further, it is continually shifting its product mix towards value-added products and increasing its portfolio of high margin sanitary ware and fittings products, which should aid margin expansion in the coming years. The company's profitability is supported by a decline in power and fuel expenses owing to softening gas prices during FY2017. Notwithstanding the transient effects of the Goods & Services Tax (GST) implementation, which can impact demand for the industry as a whole in the near term, the favourable long-term demand prospects for flooring and wall tiles in the domestic market will help in sustaining the company's revenue growth in the long term. SCL's improved manufacturing presence post acquisitions in Morbi, Gujarat should also support the top line. The company's presence in the sanitary ware and bath fittings segments (though Joint venture (JV) and outsourced sales) are expected to provide a fillip to the profitability as the segments increase in scale (installed JV capacity of sanitary ware has been more than tripled to 1.15 million pieces per annum).

Rating concerns emanate from the highly competitive nature of the tile industry, marked by the presence of both large and organised players as well as numerous small scale tile manufacturers (mostly in and around Morbi, which operate with a leaner cost structure). The company's margins will remain vulnerable to change in input costs, especially power and gas. Notably, the company has benefitted from a decrease in gas prices, especially since January 2016, which is expected to aid its profitability in the near term. The business also remains vulnerable to slowdown in the real-estate sector. However, the company's actual exposure to private builders segment, which is witnessing pressure, is limited. Weak industry demand and demonetisation have impacted revenue growth in FY2017. Strong brand and distribution network coupled with distributed manufacturing presence act as a buffer against these concerns.

Going forward, SCL's ability to counter the rise in input costs, competitive pressures and demand slowdown with its focus on value-added products and brand will remain the key rating driver. Small sized organic and inorganic investments should keep the long-term debt levels stable and also aid revenue growth.

[1] 100 lakh = 1 crore = 10 million

[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

- **Established position in domestic tile market; strong brand name with national recognition** - Presence of manufacturing facilities in the northern and western regions of India reduces the vulnerability of SCL's revenue base to the demand-supply dynamics in any particular region.
- **Significant increase in capacity over the last five years** - Through a series of investments, the company's accessible capacity (including own manufacturing, JV and outsourced capacities) increased from 33.9 million square metre (msm) in FY2012 to 62.06 msm, with stable debt levels.
- **Strong financial profile** - Equity infusion, low debt levels, and improvement in profitability have resulted in low gearing and improved coverage indicators.
- **Healthy liquidity profile** - Presence of cash and liquid investments of Rs. 123.6 crore as on March 31, 2017.

Credit weaknesses

- **Demand slowdown due to implementation of GST** - Though the effective tax on tiles has not changed for organised tile players such as SCL, implementation of GST may potentially impact the industry demand in the near-to-medium term. However, SCL's strong financial profile and recognised brand are likely to mitigate risks.
- **Highly competitive business** - Presence of big organised players and low-cost unorganised players can affect the position of the company in markets beyond northern and southern India. However, tie-ups with players in Gujarat, focus on manufacturing high-end tiles and strengthening of distribution network should help sustain profitability and increase in market share.
- **Vulnerability to slowdown in the real-estate sector-** The company is exposed to cyclicality in the real estate industry. However, institutional sales constitute only a third of SCL's sales. Also, it remains focused on furthering its retail presence in Tier II and Tier II towns, which may further reduce the proportion of institutional sales.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria
[Corporate Credit Rating Methodology]

About the company
SCL was incorporated in 1969 as a manufacturer of ceramic tiles by Mr. H. L. Somany in collaboration with Pilkington's of the UK as a widely-held company. Since then, the company has extended its production capacities as well as product range. It is involved in the manufacturing, outsourcing and trading of ceramic wall and floor tiles. The company has access to 62.06 msm capacity, which includes 25.55 msm per annum (pa) capacity at the company-owned production units at Kassar (Haryana) and Kadi (Gujarat), 27.51 msm pa through subsidiaries and associates, and 9.0 msm pa through outsourcing. In addition, the company acquired a majority stake in Somany Sanitaryware Pvt. Ltd., which has a capacity of 3.03 lakh pieces of sanitaryware pa. The same has been more than trebled to 11.5 lac pieces pa in April 2017. The company markets its tiles under established brand names like Somany, Durastone, Duragress, VC Shield, Somany Express etc.

In FY2017, the company reported operating income of Rs. 1838.4 crore and net profit of Rs. 86.1 crore as against operating income of Rs. 1730.7 crore and net profit of Rs. 61.1 crore in FY2016.

Key financial indicators

	FY2016	FY2017
Operating Income (Rs. crore)	1,730.7	1,838.4
PAT (Rs. crore)	61.1	86.1
OPBDIT/ OI (%)	7.1%	8.8%
RoCE (%)	19.8%	21.7%
Total Debt/ TNW (times)	0.45	0.43
Total Debt/ OPBDIT (times)	1.54	1.35
Interest Coverage (times)	7.53	9.80
NWC/ OI (%)	10.4%	12.8%

Note: Amounts in Rs. crore; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Adjusted Profit after Tax; TNW: Tangible Net Worth; NWC: Net Working Capital.
Source: Financial statements of SCL and ICRA estimates

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years
Table

S.No	Name of Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Date & Rating		Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				October 2017	July 2017	October 2016	December 2015	September 2014
1	Commercial Paper	Short Term	125.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
2	Term loans	Long Term	-	-	-	-	-	[ICRA]BBB+ (Stable)^
3	Fund-based Facilities	Long Term	-	-	-	-	-	[ICRA]BBB+ (Stable)^
4	Non-fund Based Facilities	Short Term	-	-	-	-	-	[ICRA]A2+^

Complexity level of rated instrument
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Instrument	Date of Issuance	Coupon rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Commercial Paper	-	6.55-6.60%	62-90 days	125.00	[ICRA]A1+

Source: Somany Ceramics Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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