Somany Ceramics Limited

November 30, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore[1])	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	125.00	150.00	[ICRA]A1+[2]; Reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The rating action takes 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. In addition, the presence of a strong distribution network enables the company to reach out to a very wide customer base as well as maintain its bargaining power. The rating draws comfort from the presence of sizeable cash and liquid funds (Rs. 127 crore as on September 30, 2018) and low debt repayments (relative to available cash flows).

However, rating concerns emanate from the highly competitive nature of the tile industry, marked by 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). Intense competition and oversupply have resulted in continued downward pressure on tile realisation in the last few quarters. This has increased SCL's vulnerability to an increase in input costs as its ability to pass on the same to customers remains limited. The de-growth in revenues (also a contributor to lower profitability) and rise in power and fuel costs has impacted SCL's profitability in FY2018 and H1 FY2019. Given the rising cost pressures and subdued demand outlook, the profitability and revenue growth in the next few quarters will be a key monitorable for ratings.

Key rating drivers

Credit strengths

Established position in domestic tile market; brand has national recognition – SCL has a track record of operations of nearly four decades with a pan-India distribution reach. It is one of the leading players in the domestic tile industry with a capacity of 50.53 million square metre (msm) per annum (including its subsidiary/associate companies). Presence across multiple price points and products has created an established brand.

Distributed capacities enables presence across regions – SCL has own manufacturing capacity of 19.63 msm in Haryana, and 6.65 msm in Gujarat, and through its subsidiaries/associates, tile capacity 24.25 msm and sanitaryware capacity of 1.15 million pieces per annum in Gujarat and bath fittings of 0.65 msm in Chandigarh. Geographical dispersion of capacities is a key differentiator among tile players as tile is a freight-intensive product. Hence, diversification enables wider geographic presence and customer base.

[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

Strong distribution network differentiates SCL from smaller-sized organised and unorganised players – SCL's distribution network comprises 1,736 active dealers, 324 franchisee-managed showrooms/display centres and over 8,000 sub-dealers which cater to both retail and institutional sales. It aims to add 100 more showrooms this year. The available dealer network helps achieve significant customer diversification and bargaining power for SCL.

Capital structure to remain strong and improve with lower debt levels – The net gearing of the company stood at 0.4 times as on September 30, 2018. With no major capital expenditure plans of its own (Rs. 25–30 crore annually through subsidiaries/associates and Rs. 25-30 crore maintenance capex), the capital structure should improve with the lowering of long-term debt (scheduled repayments) and freeing up of working capital (with expected reduction in working capital intensity of operations).

Healthy liquidity as reflected in sizeable cash and liquid funds, cushion in drawing power and moderate repayments – ICRA expects that SCL will maintain adequate cushion for debt servicing (unless there is significant deterioration in profitability), given its relatively low debt levels and moderate repayments. Additionally, the presence of liquid funds of (Rs. 127 crore as on September 30, 2018) is a significant source of comfort. The company regularly issues commercial paper to fund its working capital needs and the same is within the drawing power of the company.

Credit challenges

Highly competitive business with presence of large-sized organised players and several unorganised players – Presence of large organised players and numerous small-sized players (which have been undertaking capacity additions at an increased space) has resulted in an increase in tile capacity and heightened competition for SCL and the industry as whole. This is evident in the year-on-year decline in tile realisations for SCL in FY2018 and H1 FY2019.

Profitability to remain vulnerable to increasing competition and rise in input costs – Increase in raw material and power and fuel costs have adversely impacted the company's profitability. Given the multiple one-off events (truckers' strike, Kerala floods, tightening of credit terms by SCL), the revenue growth too has been impacted and this has resulted in one of the lowest operating margins for SCL (5% in H1 FY2019) in the last 15 years. Continued subdued revenue growth and pressure on profitability can result in deterioration in the cash flow from operations from the current levels and will be a key monitorable for the assigned ratings.

Liquidity position

The liquidity position of the company remains comfortable with presence of significant cash and liquid funds (Rs. 127 crore as on September 30, 2018). The commercial paper used for funding working capital borrowing is within the drawing power of the company and in the seven months ended October 2018, the company has maintained an average cushion of Rs. 71.7 crore with respect to its drawing power (which is 33% of the average drawing power during this period). The average annual repayment for the long-term debt is Rs. 32 crore for the next four years. There are no capital expenditure plans as of now, apart from an increase of Rs. 25–30 crore in investments in its subsidiaries/associates.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

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 manufacturing, outsourcing and trading ceramic and vitrified tiles, sanitaryware and bath fittings. The company has access to 59.53 msm tile capacity, which includes 26.28 msm per annum (pa) capacity at the company-owned production units at Kassar (Haryana) and Kadi (Gujarat), 24.25 msm pa through subsidiaries and associates, and 9.0 msm pa through outsourcing. In addition, SCL has access to 1.15 mn pieces pa sanitaryware capacity and 0.65 mn bath fittings capacity through subsidiaries.

In FY2018, the company reported a net profit of Rs. 65.1 crore on an operating income (OI) of Rs. 1,665.3 crore compared with a net profit of Rs. 87.7 crore on an OI of Rs. 1,802.7 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1,802.7	1,665.3
PAT (Rs. crore)	87.7	65.1
OPBDIT/OI (%)	8.9%	7.9%
RoCE (%)	21.3%	14.2%
Total Debt/TNW (times)	247.6	288.7
Total Debt/OPBDIT (times)	1.5	2.2
Interest Coverage (times)	9.7	7.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating November 2018	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018 October 2017	July 2017	Date & Rating in FY2017 October 2016	Date & Rating in FY2016 December 2015
1	Commercial Paper	Short Term	150.00	125.00	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the 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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	-	7.65-7.95%	84-90 days	150.00	[ICRA]A1+

Source: Somany Ceramics Limited

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 454 304
sabyasachi@icraindia.com

Siddhartha Kaushik
+91 124 4545 323
siddhartha.kaushik@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6169 3300
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999