

12<sup>th</sup> October, 2020

The General Manager  
Corporate Relationship Dept.,  
**BSE Limited,**  
1<sup>st</sup> Floor, New Trading Ring,  
Rotunda Building,  
Sir Phiroze Jeejeebhoy Towers,  
Dalal Street, Fort, Mumbai-400 001

The Secretary,  
**National Stock Exchange of India Limited,**  
Exchange Plaza, 5<sup>th</sup> Floor  
Bandra Kurla Complex, Bandra (East)  
Mumbai - 400 051

**Subject: Revision in Credit Rating**  
**Ref: Regulation 30 of SEBI (Listing Obligations & Disclosures Requirements) Regulations, 2015**

Dear Sir/ Madam,

In reference to the above-cited subject, please be informed that the ICRA has revised its rating as under:

Short Term Rating	Rated Amount	Rating Action
Instrument: Commercial Paper (CP)	Rs. 75 Crores	[ICRA]A1; downgraded from [ICRA]A1+; rating removed from watch with negative implications

Please note that the last tranche of Commercial Paper issued by the Company was in October 2019 and there is no outstanding transaction currently. Company has already submitted request to ICRA for withdrawal of said credit rating.

Please refer the annexure for detailed rationale as issued by ICRA.

This is for your information and record.

Thanking you,

Yours Faithfully,  
**For Somany Ceramics Limited**

  
**Ambrish Julka**  
**GM (Legal) and Company Secretary**  
**M.No.: F4484**



### Annexure - Detailed Rationale

The rating action factors in the ICRA's expectations of weak demand prospects for ceramic tile industry that would in turn result in relatively muted profitability and coverage indicators of Somany Ceramics Limited (SCL). ICRA notes that the sales of SCL during FY2016-FY2020 remained rangebound and operating profits declined despite sizeable capital expenditure (capex) incurred during this period translating into deterioration in return indicators and credit metrics. The company's ROCE declined over the last three years following contraction in operating margin as well as decline in asset turnover. In addition, SCL's net profits have contracted over the past two fiscals due to provisioning of exceptional items (employee fraud in FY2019 and loss due to stockbroker<sup>1</sup> payment default). As the company was in expansion phase, its debt levels increased till FY2019, even though there was some reduction in FY2020, it remains high and thus, resulted in moderation of credit metrics such as TD/OPBIDTA and interest coverage ratio to 4.0x and 2.7x respectively in FY2020. SCL's credit profile is expected to further moderate in FY2021 in the backdrop of subdued demand prospect in the end user real estate industry and lower absorption of fixed costs, further exacerbated by uncertainty regarding demand recovery amidst Covid-19 outbreak. ICRA notes that the Covid-19 outbreak significantly impacted SCL's Q1FY2021 performance as factories remained shut resulting in 57% YoY decline in sales and the consequent weakening of operating margin to -6.9% in Q1FY2021 as against 7.7% in Q1FY2020 on account of negative operating leverage. Although as indicated by the management there has been recovery in sales in Q2FY2021, ICRA believes that muted demand prospects in the current fiscal could result in contraction in sales, operating profits and cash accruals notwithstanding various cost control measures undertaken. Notwithstanding the recovery of ICDs from unrelated parties, there could be a delay in the recovery of the balance outstanding ICDs amidst the Covid-19 outbreak.

The rating continues to be constrained by the high competitive intensity, especially from the unorganised sector that continues to remain formidable notwithstanding the regulatory developments (such as the ban by National Green Tribunal (NGT) on captive coal gasifier plants in the Morbi region along with stricter implementation of GST/E-way bill) that resulted in higher compliance costs. Moreover, the labour unavailability and liquidity challenges faced by many small players has also resulted in consolidation and augurs well for market position of organised players over long term.

The above concerns notwithstanding, the rating continues to draw comfort from SCL's established position in the domestic tiles market with long track record of operations in the industry, its well-recognised brand, significant manufacturing presence and pan-India distribution reach and the favourable long-term demand prospects in the ceramic tiles industry. The company continues to be one of the largest players in the Indian tiles industry, with a sizeable scale of operations and a well-diversified customer base with presence across both retail and institutional segments (with retail segment constituting 70-80% of its sales). With presence across multiple products, significant distribution reach as well as brand recognition, the company has been able to maintain a healthy business position.

<sup>1</sup> On 6<sup>th</sup> September 2019, SCL had disclosed to the exchanges that a cheque of Rs. 26.2 crore issued in favor of SCL by Mentor Financial Services Pvt Ltd (Mentor), a stockbroker of the company, had bounced owing to insufficient funds. The company issued demand notices for repayment to Mentor. However, in view of continued default by Mentor, the company subsequently filed a criminal complaint.

In the current fiscal, SCL has implemented cost reduction measures in light of decline in sales volumes that include reduction in employee costs, selling and advertising expenses, overheads as well as lower interest expense pursuant to prepayment of higher interest-bearing loans (earlier availed moratorium on debt servicing on this loan under the RBI forbearance scheme). In addition, SCL's operating performance is further likely to benefit from reduction in crude oil prices resulting in lower power and fuel costs, which is a major cost component. Nevertheless, operating profits and cash accruals may contract in FY2021 and expected to recover meaningfully only in FY2022 with recovery in demand prospects. ICRA also notes that SCL's receivables cycle has reduced considerably over the last two years, from 104 days in FY2018 to 63 days in FY2020 and improved further as company introduced channel financing for its trade partners and improved its collection cycle, supporting SCL's liquidity to an extent.

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