

August 05, 2022

Solizo Vittrified Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term/ Fund Based - Term Loan	19.92	12.24	[ICRA]BB- (Stable); reaffirmed
Long Term/ Fund Based - Working Capital Term Loan	6.20	9.01	[ICRA]BB- (Stable); reaffirmed
Long Term/Fund Based - Working Capital Facilities	12.00	15.00	[ICRA]BB- (Stable); reaffirmed
Short Term/ Non-Fund Based Bank Guarantee	3.00	4.50	[ICRA]A4; reaffirmed
Long Term /Short Term - Unallocated	-	0.37	[ICRA]BB- (Stable)/ [ICRA]A4; reaffirmed
Total	41.12	41.12	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings of Solizo Vittrified Pvt. Ltd (SVPL) is constrained by the company's average financial risk profile, characterised by a relatively moderate scale of operations and profitability, stretched liquidity position and high working capital intensity. The ratings also factor in the intense competition in the ceramic industry and the exposure of the company's profitability to the volatility in raw material and fuel prices. ICRA takes note of the exposure of the SVPL's operations and cash flows to the cyclical nature in the real estate industry, which is the key end-user sector.

The ratings, however, favorably factor in the extensive experience of the promoters in the ceramic industry and the proximity to raw material sources by virtue of its presence at Morbi (Gujarat).

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that the company is expected to maintain its business position.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in ceramic industry – SVPL is promoted by Mr. Gautam Kanjiya and family. The company's key promoters have more than a decade's experience in the ceramic industry through their association with other ceramic entities operating in the same industry. Mr. Gautam Kanjiya is also a director on board of Small Johnson Floor Tiles Private Limited ([ICRA]BBB (Stable)/[ICRA]A3+).

Location-specific advantage - The company benefits from the low transportation cost and easy access to quality raw materials, as well as power and fuel sources by virtue of the plant's strategic location in the Morbi region of Gujarat, which is the ceramic hub of India.

Credit challenges

Average financial risk profile – The company's scale of operations though increased by 38.8% remains modest, with an operating income (OI) of Rs. 108.8 crore in FY2022 (provisional, unaudited) (FY2021: Rs.78.4 crore). The operating profitability was moderate at 9% in FY2022 (provisional, unaudited) (FY2021: 9.2%). Further, owing to high debt level and small net-worth base (Rs. 13.2 crore as on March 31, 2022), the capital structure remained leveraged, with gearing of 3.2 times as on March 31, 2022, although it improved from 4 times as on March 31, 2021. The coverage indicators were also remained average in FY2022, with interest coverage at 3.3 times, Total Debt/OPBDITA at 4.3 times and DSCR 1.1 times in FY2022(provisional, unaudited). The working capital intensity has been moderately high in the past owing to high receivables and inventory levels to support which the creditors also remain high.

Vulnerability of profitability to adverse fluctuations in raw material and fuel prices - SVPL's profitability remains exposed to the fluctuations in raw material (body clay, feldspar and glazed frit) as well as power and fuel (propane) prices. Raw material and fuel are the two major components that determine the cost competitiveness of the ceramic industry. The company has little control over the prices of key inputs. Moreover, stiff competition limits its ability to pass on any upward movement in prices to its customers.

Margins vulnerable to intense competition and cyclicity in real-estate industry - The tile manufacturing industry is highly fragmented with stiff competition from the organised and unorganised segments, apart from imports. The large number of players in the unorganised segment, with most of them located in Gujarat and operating on low-cost structures, creates a pressure on the prices. Moreover, the demand for tiles remains exposed to the cyclicity in the real-estate sector.

Liquidity position: Stretched

SVPL's liquidity position is stretched because of impending debt repayments against which the cash accruals are tightly matched. Though, recent Rs. 3.0 crore enhancement in cash credit limit and Rs. 3.1 crore of covid emergency loan will support the liquidity going forward. Further, promoters' support in case of any cash flow mismatch remains crucial.

Rating sensitivities

Positive factors: ICRA could upgrade SVPL's ratings if sustained growth in revenue and profitability leads to an improvement in coverage metrics and liquidity cushion.

Negative factors: Pressure on SVPL's ratings could arise if deterioration in the operating performance of the company or stretch in the working capital cycle weakens the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

Incorporated in May 2017 as a private limited company, Morbi based Solizo Vitrified Pvt. Ltd. (SVPL) was established by Mr. Gautam Kanjiya and his family members and relatives. The company commenced the manufacturing of glazed vitrified tiles in May 2018 and currently produces 9000 boxes of vitrified tiles per day of 600mmX600mm, 600mmX1200mm and

200mmX1200mm dimensions. The company's operations are managed by Mr. Gautam Kanjiya, Mr. Sagar Moradiya, Mr. Dipak Moradiya and Mr. Nishant Ashar.

Key financial indicators (audited)

	FY2021	FY2022P
Operating Income (Rs. crore)	78.4	108.8
PAT (Rs. crore)	0.9	1.7
OPBDIT/OI (%)	9.2%	9.0%
PAT/OI (%)	1.2%	1.5%
Total Outside Liabilities/Tangible Net Worth (times)	5.9	5.1
Total Debt/OPBDIT (times)	6.5	4.3
Interest Coverage (times)	2.3	3.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, P: Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of May 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Aug 05, 2022				
1	Term Loan	Long Term	12.24	12.24	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	[ICRA]B+(Stable)	[ICRA]B+(Stable)
2	Working Capital Term Loan	Long Term	9.01	9.01	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	-	-
3	Working Capital Facilities	Long Term	15.00	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	[ICRA]B+(Stable)	[ICRA]B+(Stable)
4	Bank Guarantee	Short Term	4.50	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
5	Unallocated Limits	Long Term/Short Term	0.37	-	[ICRA]BB-(Stable)/[ICRA]A4		-	[ICRA]B+(Stable)/[ICRA]A4	-

Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term/ Fund Based - Term Loan	Simple
Long Term/ Fund Based - Working Capital Term Loan	Simple
Long Term/Fund Based - Working Capital Facilities	Simple
Short Term/ Non-Fund Based - Bank Guarantee	Very Simple
Long Term /Short Term -Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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	Term Loan	FY2018	NA	FY2025	12.24	[ICRA]BB- (Stable)
NA	Working Capital Term Loan	FY2021	NA	FY2025	9.01	[ICRA]BB-(Stable)
NA	Working Capital Facilities	NA	NA	NA	15.00	[ICRA]BB-(Stable)
NA	Bank Guarantee	NA	NA	NA	4.50	[ICRA]A4
NA	Unallocated	NA	NA	NA	0.37	[ICRA]BB- (Stable)/ [ICRA]A4

Source: Company

Annexure-2: List of entities considered for consolidated analysis- Not Applicable

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