January 27, 2025

Simpolo International Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund based – Term Loan	144.00	[ICRA]AA-(Stable); assigned
Long Term – Fund based – Cash Credit	50.00	[ICRA]AA-(Stable); assigned
Long Term/Short Term – Non-Fund based limits	15.00	[ICRA]AA-(Stable)/[ICRA]A1+; assigned
Total	**209.00**	

**Instrument details are provided in Annexure-I*

Rationale

While arriving at the ratings, ICRA has considered the consolidated view of Simpolo International Private Limited (SIPL), along with its parent Simpolo Vitrified private limited (SVPL) and its subsidiaries (Nexion Surfaces Private Limited, Simpolo S.R.L and Simpolo Foundation) [together referred to as the Simpolo Group], given the common management team and significant operational and financial linkages among the entities.

The assigned ratings factor in the established presence of the Simpolo Group in the domestic tiles market with strong brand recognition in the mid-range tile segment (sold under Simpolo and Ispira brands) and premium tile segments (sold under Neotra and Nexion brands). The Group has a well-entrenched distribution network of more than 1,500 distributors across India and 25 experience centres across six states. The Group witnessed a robust revenue growth at a CAGR of 33.2% during FY2020–FY2024 on the back of a healthy uptick in sales of premium tiles. The Group's revenue is geographically diversified with domestic sales (pan-India distribution) accounting for ~86% of total revenue and export sales contributing to the balance ~14% (various countries including Kuwait, Mexico and Russia) for FY2024. ICRA expects the Simpolo Group to witness revenue growth of ~15-18% per annum post stabilisation of the ongoing capacity expansion. It has showcased consistent increase in its operating margin (from 8.6% in FY2020 to 17.1% in FY2024), driven by increase in premium tile sales as well as judicious fuel sourcing management, which has enabled the Group to sustain its profit margins amid the volatile global natural gas prices. ICRA estimates the Group to maintain the healthy operating margin in the range of 15-17% in the medium term. The rating notes the Simpolo Group's healthy capital structure with total outside liabilities to tangible net worth ratio of 0.3 times (FY2024) and comfortable debt protection metrics with interest coverage of 15.1 times (FY2024) and debt service coverage ratio (DSCR) of 6.7 times (FY2024). Despite the Group's capital expenditure plans of ~Rs. 974 crore (which is partially debt funded) over FY2025 and FY2026 towards capacity expansion, its credit metrics are expected to remain comfortable with interest cover likely to remain above 5.0 times and DSCR above 2.0 times over the medium term. The ratings also factor in the extensive experience of the promoters in the tiles industry, spanning over three decades.

The long-term rating is, however, constrained by the intense competition in the tiles industry and the susceptibility of the Simpolo Group's revenues and cash flows to the cyclicality of the real estate industry, which is the major end-user industry. The ratings factor in the vulnerability of the Group's operations to fluctuations in input prices and limited ability to pass on the same to end-users amid stiff competition, resulting in volatile profitability margins. Nonetheless, the company is better placed to pass on the increased input prices to customers compared to other smaller and mid-sized players owing to its strong market position. The ratings remain exposed to execution risk as the Group is setting up two new manufacturing plants at Tirupati (Andhra Pradesh) and Malia (Gujarat), at an estimated cost of ~Rs. 974 crore (to be funded by ~Rs. 447 crore of term loans and the balance through fund raised by private equity investors/internal accruals), which is expected to increase its production capacity to 39.6 million square metres per annum (msm p.a.) (from currently being 20.8 msm p.a.). The Tirupati plant is expected to commence operations post Q1 FY2026, while the Malia plant is likely to commence operations post Q3 FY2026. Timely completion of the capex within the budgeted cost and successful ramp-up of operations from the new units remain the key monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group will sustain its operating performance in the medium term and would record healthy revenue growth benefitting from its established position and strong brand presence.

Key rating drivers and their description

Credit strengths

Established position of the Group in domestic tiles market with pan-India presence – The promoters of the Simpolo Group carry experience of more than three decades in the ceramics industry and have established the Simpolo brand in the domestic tiles market. The Group is a leading player in premium category tiles, marketed under their Neotra and Nexion brands and has established a strong distribution network in the domestic and international markets, as reflected in its expanding geographical footprint. In India, the Group has a network of more than 1,500 dealers and 25 experience centres enabling it to maintain its market presence.

Strong net worth base and comfortable debt coverage metrics – The Group has a healthy capital structure with total outside liabilities to tangible net worth ratio of 0.3 times (FY2024) and comfortable debt protection metrics with interest coverage of 15.1 times (FY2024) and DSCR of 6.7 times (FY2024). The Group's net worth has strengthened over the last five years, with equity infusion of Rs. 415 crore in FY2023 and healthy accretion to profits over the years. Owing to sizeable capacity expansion of ~Rs. 974 crore during FY2025-FY2026, which is partially debt funded, the total debt/OPBIDTA is expected to remain above 1.1 times over the medium term. However, the coverage metrics are estimated to remain comfortable with interest cover likely to remain above 5.0 times and DSCR above 2.0 times over the medium term.

Large scale of operations with a well-diversified customer base – The Simpolo Group is among the large, reputed players in the Indian tile industry, with a sizeable scale of operations. The Group witnessed a robust revenue growth at a CAGR of 33.2% during FY2020–FY2024 on the back of a healthy uptick in sales of premium tiles, with the consolidated revenue touching Rs. 1,671.9 crore in FY2024. The Group's revenue is geographically diversified with domestic sales (pan-India distribution) accounting for ~86% of the total revenue and export sales contributing to the balance ~14% (various countries including Kuwait, Mexico and Russia) for FY2024. ICRA expects the Simpolo Group to witness revenue growth of ~15-18% per annum post stabilisation of the ongoing capacity expansion. ICRA estimates the Group to maintain healthy operating margin in the range of 15-17% in the medium term. The Group has a network of more than 1,500 dealers, and 25 experience centres. The Group has tied up with interior designers and architects to sell its premium brands. It caters to a diverse customer base consisting of both retail and institutional buyers, with retail sales dominating the mix.

Credit challenges

Vulnerability of profitability to changes in raw material and fuel prices – Raw materials (mainly clay) and fuel are the two major cost components (~60%) in tiles production, which determine the cost competitiveness of operations. The Group has limited control over the prices of key inputs, and limited ability to pass on the same to end-users amid stiff competition exposing its profitability to adverse raw materials and fuel price fluctuations. Nonetheless, the company is better placed to pass on the increased input prices to customers compared to other smaller and mid-sized players owing to its strong market position.

Intense competition from other organised and unorganised players; exposure to cyclicality in real estate industry – The domestic ceramic tiles industry faces intense competition due to the presence of many organised as well as unorganised players with a wide product portfolio, along with significant capacity addition in the recent past and volatile export demand, resulting in stiff competition in the domestic tiles industry. Although the Group shall benefit from its established brand position, it faces significant competition from other established players. Moreover, the real estate industry remains the major end-user segment, and hence, its revenues and cash flows remain vulnerable to the cyclicality in the same.

Exposed to project execution risks, related to large ongoing capex in SIPL – The rating remains exposed to execution risk as the Group is setting up two new manufacturing plants at Tirupati (Andhra Pradesh) and Malia (Gujarat), at an estimated cost of ~Rs. 974 crore (to be funded by ~Rs. 447 crore of term loans and the balance through fund raised by private equity investors/internal accruals), which is expected to increase its production capacity to 39.6 million square metres (msm) p.a. (from currently being 20.8 msm p.a.). The Tirupati plant is expected to commence operations post Q1 FY2026, while the Malia plant is likely to commence operations post Q3 FY2026. The project offers operational synergies in the longer term. However, timely completion of the capex within the budgeted cost and successful ramp-up of operations from the new units remain the key monitorable.

Liquidity position: Adequate

The Simpolo Group's liquidity is adequate, supported by healthy cash flows from operations, undrawn working capital lines of around Rs. 224 crore as of November 2024 and cash and liquid investments of ~Rs. 100 crore as on January 04, 2025. The ongoing capital expenditure of ~Rs. 974 crore is being funded by ~Rs. 447 crore of term loans and the balance through fund raised by private equity investors/internal accruals. The company has already tied-up the loan for the Tirupati plant at competitive rates and plans to tie-up the debt for the Malia plant by March 2025. The loan has a moratorium of 1 year, which provides adequate time for stabilisation prior to start of repayments. Further, it has already raised equity to the extent of Rs. 415 crore in FY2023, which supports the liquidity profile.

Rating sensitivities

Positive factors – The ratings could be upgraded if the Group exhibits a significant improvement in its scale of operations, on a sustained basis, while maintaining healthy operating profitability and comfortable coverage metrics and liquidity profile.

Negative factors – Pressure on the ratings could arise if the Group witnesses a material decline in its revenues or profitability, which impacts the debt protection metrics on a sustained basis. Significant time and cost overrun for its ongoing capex materially impacting the debt protection metrics, or a stretch in the working capital cycle impacting the liquidity position, on a sustained basis, may also be negative for the ratings. Specific credit metrics that could lead to a rating downgrade will be DSCR below 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of SIPL along with its parent, SVPL and its subsidiaries (details enlisted in Annexure-II), given the strong business and financial linkages between them.

About the company

The Simpolo Group, established by the Aghara family, deals in tiles and sanitaryware products since 1991, when their first sanitaryware plant was established, followed by a ceramic tile manufacturing plant in 1995. SVPL (parent entity) was incorporated in 2007 to manufacture and market vitrified tiles under the Simpolo brand. The Group is an established player in the domestic tiles market with strong brand recognition in the mid-range tile segment (sold under Simpolo and Ispira brands) and premium tile segments (sold under Neotra and Nexion brands). Its current tile manufacturing capacity is at 20.8 msm per annum, planned to be expanded to 39.6 msm per annum by adding two new plants through its newly incorporated wholly-owned subsidiary Simpolo International Private Limited (SIPL).

SIPL was incorporated in May 2023 for setting up and operating vitrified tile plants in Tirupati (Andhra Pradesh) and Malia (Gujarat). The proposed plants will have an annual installed capacity totalling 19.32 msm per annum (8.20 msm in Tirupati and 11.12 msm in Malia). Both plants are under construction as of January 2025. The Tirupati plant is expected to commence operations from June 2025, and Malia plant post October 2025. Post commencement of operations, SIPL will serve the domestic market through SVPL and export market via direct sales.

Key financial indicators (audited)

SVPL Consolidated	FY2023	FY2024
Operating income (Rs. crore)	1,420.7	1,671.9
PAT (Rs. crore)	55.8	149.8
OPBDIT/OI (%)	16.5%	17.1%
PAT/OI (%)	3.9%	9.0%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	0.5	0.6
Interest coverage (times)	7.4	15.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jan 27, 2025	-	-	-
1	**Term Loan**	Long-Term	144.00	[ICRA]AA-(Stable)	-	-	-
2	**Cash Credit**	Long-Term	50.00	[ICRA]AA-(Stable)	-	-	-
3	**Non Fund based limits**	Long Term/Short Term	15.00	[ICRA]AA-(Stable)/[ICRA]A1+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund based – Term Loan	Simple
Long Term – Fund based – Cash Credit	Simple
Long Term/Short Term – Non Fund based limits	Very Simple

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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term – Fund based – Term Loan	FY2025	NA	FY2032	144.00	[ICRA]AA-(Stable)
NA	Long Term – Fund based – Cash Credit	NA	NA	NA	50.00	[ICRA]AA-(Stable)
NA	Long Term/Short Term – Non Fund based limits	NA	NA	NA	15.00	[ICRA]AA-(Stable)/[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	SVPL Ownership	Consolidation Approach
Simpolo Vitrified Private Limited	Parent Entity	Full consolidation
Simpolo International Private Limited (rated entity)	100%	Full consolidation
Nexion Surfaces Private Limited	100%	Full consolidation
Simpolo S.R.L	100%	Full consolidation
Simpolo Foundation	100%	Full consolidation

Source: Annual Report FY2024

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ABOUT ICRA LIMITED

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