

January 10, 2017

Verona Granito Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Long-term Fund-based Limit	10.00	Upgraded to [ICRA]BB (stable) from [ICRA]BB- (stable)
Short-term Non-fund Based Limit	2.75	Reaffirmed at [ICRA]A4
Total	12.75	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has revised the long-term rating assigned to the Rs.10.00-crore fund-based limit of Verona Granito Private Limited (VGPL or 'the company')¹ to [ICRA]BB (pronounced ICRA double B) from [ICRA]BB- (pronounced ICRA double B minus). ICRA has also reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) on the Rs.2.75 crore non-fund based limits of the company.

Rationale

The ratings upgrade favourably factors in VGPL's improving financial risk profile in the past three years, characterised by steady revenue growth, improved profitability, healthy capital structure and better debt servicing indicators. Also, the ratings favourably consider the extensive experience of key promoters in the ceramic industry; the diversified product portfolio given the introduction of digital printed and glazed vitrified tiles; and the location advantage enjoyed by the company by virtue of its proximity to key raw material sources. The ratings, however, remain constrained by the relatively modest size of operations as compared to organised pan Indian players in the highly competitive ceramic tiles industry. The ratings also take into account the vulnerability of VGPL's profitability to the price of piped natural gas (PNG), though the price risk is significantly mitigated by the installation of a coal-based gasifier in FY2016. The ratings are further constrained by the cyclical nature associated with the real estate industry, which is the main end-user sector.

ICRA notes that VGPL's revenue would depend on its ability to diversify its markets and customers to achieve optimal plant utilisation levels. Furthermore, ICRA expects the margins to improve on the back of fuel cost savings after the installation of coal-based gasifier. Also, the improvement in cash flows could lower the working capital requirements, further leading to saving in interest costs.

Key Rating Drivers

Credit Strengths

- Extensive experience of key promoters in the ceramic industry
- Location advantage resulting in easy access to raw material sources
- Diversified product portfolio with introduction of glazed vitrified tiles
- Improvement in financial risk profile as reflected in the steady revenue growth, increased profitability, healthy capital structure and improved debt servicing indicators in the past three years.

Credit Weakness

- Vulnerability of profit margins and cash flows to the cyclical nature inherent in the real estate industry, which is the main consuming sector.
- Susceptibility of profit margins to availability and price of gas; though largely mitigated with the installation of coal-based gasifier in FY2016.
- Competitive business environment due to the presence of large established organised tile manufacturers as well as unorganised players.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Description of Key Rating Drivers Highlighted Above:

VGPL's financial profile is characterised by the steady revenue growth, increased profitability, healthy capital structure and better debt servicing indicators in the past three years. The operating income increased in FY2016 owing to the improvement in sales realisations after glazed vitrified tiles was rolled out during the year. Subsequently, the operating profitability too improved to 8.23% in FY2016, aided by lower fuel cost, the benefit of installing the coal-based gasifier. Gearing declined marginally from 0.49x to 0.46x as a result of increase in net worth of the company, though the total debt increased y-o-y. With higher profitability interest coverage, the debt protection metrics improved significantly in FY2015 with OPBDITA/I&F of 5.42x, NCA/Debt of 52% and Debt/OPBDIT lower at 1.84 times.

The profitability of the company is vulnerable to prices fluctuations of PNG, which is the major source of fuel. However, the company installed a coal-based gasifier at its plant in the past year which is cheaper and can be used as alternative source of fuel. Moreover, since the company procures inventory in anticipation of demand, its margins remain vulnerable to raw material price volatility. The company's presence in the highly fragmented ceramic tiles industry, which is characterized by intense competition, limits its pricing flexibility along with its ability to pass on the increase in raw material prices to customers. Also, with majority of sales being made to the real estate sector, the company's margins remain susceptible to cyclicity inherent in the real estate industry.

VGPL's promoters have been associated with the ceramic industry for more than a decade now. The company benefits from its location in Morbi, the ceramic belt of India. The company diversified its product portfolio by introducing glazed vitrified tiles in FY2016 and digitally printed soluble salt vitrified tiles.

Analytical approach:

For arriving at the ratings, ICRA has taken into account the debt servicing track record of VGPL, its business risk profile, financial risk drivers and management profile.

Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

About the Company:

Verona Granito Private Limited is a vitrified tiles manufacturer with its plant situated at Morbi, Gujarat. The company was incorporated in 2006 and it commenced its operations in October 2007. VGPL is managed primarily by two experienced directors, Mr. Mansukh Zalaria and Mr. Shailesh Kaila. The plant has an installed capacity to produce 48,000 MTPA of vitrified tiles. VGPL currently manufactures soluble salt and glazed vitrified tiles.

VGPL reported a net profit after tax and a depreciation of Rs. 2.2 crore on an operating income of Rs. 43.2 crore for the year-ending March 31, 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month-year & Rating in FY2014
				January 2017	Apr-16	Feb-15	Mar-14
1	Cash Credit	Long-term-fund based	10.00	[ICRA]BB (Stable)	[ICRA]BB- (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	Bank Guarantee	Short-term Non-fund based	2.75	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4

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
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	10.00	[ICRA]BB (stable)
Bank Guarantee	-	-	-	2.75	[ICRA]A4

Source: VGPL

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About ICRA Limited:

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