

January 24, 2017

## Vintage Tiles Private Limited

| Instrument*           | Rated Amount<br>(in crore)               | Rating Action   |
|-----------------------|--|---|
| Non-Fund Based Limits | 8.00<br>(enhanced from Rs. 6.00 crore)   | Upgraded from [ICRA]A3 to [ICRA]A3+                     |
| Fund Based Limits     | 41.01<br>(enhanced from Rs. 31.26 crore) | Upgraded from [ICRA]BBB- (Stable) to [ICRA]BBB (Stable) |
| Unallocated Amount    | 6.75                                     | Assigned [ICRA]BBB (Stable)/[ICRA]A3+                   |
| <b>Total</b>          | <b>55.76</b>                             |   |

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has upgraded the long term rating from [ICRA]BBB- (pronounced as ICRA triple B minus)<sup>1</sup> to [ICRA]BBB (pronounced as ICRA triple B) for the fund based limits of Vintage Tiles Private Limited (VTPL). ICRA has also upgraded the short term rating from [ICRA]A3 (pronounced as ICRA A three) to [ICRA]A3+ (pronounced as ICRA A three plus) for the non fund based limits of VTPL. ICRA has also assigned the ratings to [ICRA]BBB/[ICRA]A3+ for the unallocated limits of Rs. 6.75 crore. The outlook on the long term rating is 'Stable'.

### Detailed Rationale

The rating upgrade takes into account the increased holding in VTPL from 26% to 50% in FY2017 by Somany Ceramics Limited (SCL), leading to greater access to markets as well as further endorsement of continued technical and financial support by SCL and improvement in capital structure during FY2016. The ratings continue to positively consider the contractual sales agreement between with SCL and VTPL's, regarding off-take, which has led to healthy capacity utilization levels (~94-100%) in last four fiscals. The ratings further, favourably factors in the longstanding experience of the promoters in the ceramic industry coupled with VTPL's location advantage by virtue of being situated into Morbi region of Gujarat which is considered as ceramic hub.

The ratings are, however, constrained by the vulnerability of profitability to fluctuations in raw material and fuel prices, concentration risk, with SCL being the sole client for VTPL hence any policy changes by SCL or decline in its business performance amid highly competitive industry will affect the business of VTPL.

### Key rating drivers

#### Credit Strengths

- Long-standing experience of the promoters in the tile industry
- Rise in stake by Somany ceramics Limited (SCL) to 50% from 26% in FY 2017, which is a leading player in tile industry in India, providing greater access to markets as well as technical and financial support
- Entire sales to Somany Ceramics Limited limits off-take risk with savings in marketing and distribution costs
- Improvement in operating profitability and capital structure in FY2016
- Location advantage being situated in Morbi

#### Credit Weakness

- SCL being the sole client for the company, VTPL's revenue growth will be dependent on SCL's growth; any adverse policy changes by SCL or decline in its business performance amid highly competitive industry will affect the business of VTPL
- Susceptibility of operating profit margins to volatility in raw material and fuel prices

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

**Detailed description of key rating drivers highlighted above:**

The promoters of VTPL have long standing experience in the ceramic industry on account of their association with group concern-Sungloss Ceramics Industries (Rated [ICRA]BB- (Stable)/A4) since 1993. Somany Ceramics Limited (SCL) had acquired 26% stake in VTPL in 2012 and further the stake has been increased to 50% in FY2017. VTPL has entered into contract manufacturing agreement with SCL under which the entire sales is to be made to SCL. VTPL's operating profitability has improved from 10.48% in FY2015 to 11.93% in FY2016 coupled with improvement in capital structure from 2.45 times as on March 31, 2015 to 1.16 times as on March 31, 2016. VTPL's location in Morbi, Gujarat, which is consider as ceramic hub, benefits the company to procure quality raw materials and labor. VTPL will be supplying all its production to SCL which exposes the company to customer concentration risk given the VTPL's revenue growth would be contingent to SCL's revenue growth. The company's profitability would be vulnerable to any fluctuations in fuel and raw material prices given the company's limited pricing power. VTPL has been operating at optimal capacity utilization (~93%-100%) for last four fiscals. Hence, the company is undertaking capacity expansion in current fiscal to increase the total installed capacity by ~1.85 times of existing capacity.

**Analytical approach:** For arriving at the ratings, ICRA has considered the business and financial risk profile of vintage Tiles Private Limited (VTPL) and derived comfort from 50% stake of Somany Ceramics Limited in VTPL along with its the off-take agreement with VTPL.

**Links to applicable Criteria**

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

**About the Company:**

Morbi (Gujarat) based Vintage Tiles Private Limited (VTPL) was incorporated in September 2010 and is engaged in manufacturing of double charge vitrified tiles with total installed capacity of 65,100 MTPA. The company is promoted by the Patel family who have over a decade of experience in the ceramic tiles business. Somany Ceramics Limited (SCL) holds 50% stake in VTPL.

**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 (2017)    |                                 |                                  | Chronology of Rating History for the past 3 years |                         |                         |
|------|--------------------|--------------------------|---------------------------------|----------------------------------|---|-------------------------|-------------------------|
|      |                    | Type                     | Amount outstanding (Rs. Crores) | Date & Rating                    | Date & Rating in FY2015                           | Date & Rating in FY2014 | Date & Rating in FY2013 |
|      |                    |                          |                                 | January 2017                     | September 2015                                    | -                       | -                       |
| 1    | Cash Credit        | Long Term                | 15.00                           | [ICRA]BBB (Stable)               | [ICRA]BBB- (Stable)                               | -                       | -                       |
| 2    | Term Loans         | Long Term                | 26.01                           | [ICRA]BBB (Stable)               | [ICRA]BBB- (Stable)                               | -                       | -                       |
| 4    | Bank Guarantee     | Short Term               | 8.00                            | [ICRA]A3+                        | [ICRA]A3  | -                       | -                       |
| 6    | Unallocated        | Long Term/<br>Short Term | 6.75                            | [ICRA]BBB (Stable)/<br>[ICRA]A3+ | -   | -                       | -                       |

**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](http://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            | -                | -           | -             | 15.00                      | [ICRA]BBB (Stable)              |
| Term Loan 1            | 2011             |             | Mar -2018     | 4.72                       | [ICRA]BBB (Stable)              |
| Term Loan 2            | Aug-2014         |             | Dec-2023      | 4.79                       | [ICRA]BBB (Stable)              |
| Term Loan 3            | Oct-2016         |             | Sep-2025      | 16.50                      | [ICRA]BBB (Stable)              |
| Bank Guarantee         | -                | -           | -             | 8.00                       | [ICRA]A3+                       |
| Unallocated Amount     | -                | -           | -             | 6.75                       | [ICRA]BBB(Stable)/<br>[ICRA]A3+ |

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**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.

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