

Solizo Vitrified Pvt. Ltd.

November 05, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loans	26.69	[ICRA]B+ (Stable); Assigned
Fund-based – Cash Credit	10.23	[ICRA]B+ (Stable); Assigned
Non-fund Based – Bank Guarantee	3.00	[ICRA]A4; Assigned
Total	39.92	

Rating action

ICRA has assigned the long-term rating of [ICRA]B+ (pronounced ICRA B plus) to the Rs. 26.69-crore¹ term loans and the Rs. 10.23-crore cash credit facility of Solizo Vitrified Pvt. Ltd. (SVPL or the company)². ICRA has also assigned the short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 3.00-crore non-fund based bank guarantee of SVPL. The outlook on the long-term rating is Stable.

Rationale

The assigned ratings are constrained by the initial phase of the company's operations (commenced from May 2018) and the risk associated with the successful scale-up of operations, as per the expected parameters. The ratings also consider the below-average financial profile, marked by lower-than-expected accruals in the initial phase of operations, the leveraged capital structure, and the below-average debt coverage indicators due to the predominantly debt-funded capex. The ratings also remain constrained by the highly fragmented nature of the ceramic tiles industry, which results in intense competition. Furthermore, the ratings reflect the cyclical nature of the real estate industry, which is the main end-user sector and the exposure of the company's profitability to volatility in raw material and gas prices.

The ratings, however, favourably factor in the vast experience of SVPL's promoters in the ceramic industry, the benefits derived from its associate concern's marketing and distribution network and the location-specific advantage, which ensures easy availability of raw materials.

Outlook: Stable

ICRA believes that Solizo Vitrified Private Limited will continue to benefit from the past experience of its promoters and the distribution network of its associate concerns. The outlook may be revised to Positive if the company successfully increases the scale of operations, reports healthy revenue and profitability, efficiently manages the working capital while ensuring regular debt repayment, which is likely to strengthen the financial risk profile. The outlook may be revised to Negative if cash accruals are lower than expected or delay in debt repayments or stretch in working capital cycle weakens the company's liquidity position.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Experience of promoters in ceramic industry – The key promoters of the company have more than a decade-long experience in the ceramic industry vide their association with other ceramic entities that operate in the same business sector. SVPL also derives support from the marketing and distribution network of its associate concerns.

Favourable location for raw material procurement– The company's manufacturing facility is located in the ceramic tiles manufacturing hub of Morbi (Gujarat), which provides easy access to quality raw materials and allows savings on the transportation cost.

Credit challenges

Limited track record of operations – Being in the nascent stage (operations commenced from May 2018), the company remains exposed to risks associated with successful scale up of operations of SVPL's plant as per the expected parameters.

Below average financial risk profile - The capital structure is likely to remain adverse with high gearing levels (~5.25 times as on March 31, 2019 at projected level) in the medium term, given the debt-funded nature of the capex and the dependence on working capital borrowings. The debt coverage indicators are also estimated to remain below average, because of low expected accruals in the initial phase of operations and the relatively high debt obligations.

Intense competition in ceramic industry – The company faces stiff competition from established tile manufacturers as well as unorganised players, which limits its pricing flexibility.

Vulnerability of profitability and cash flows to cyclicalities inherent in real estate industry – The real estate industry is the key end user of vitrified tiles. Hence, the profitability and cash flows are likely to remain vulnerable to the inherent cyclicalities of the real estate industry.

Vulnerability of profitability to any adverse fluctuations in raw material and fuel prices – The margins of the company are primarily affected by the raw material price and the piped natural gas price fluctuation. Any adverse movement in the prices of raw materials and fuel could have an adverse impact on SVPL's margins, considering the limited ability to pass on the price hike owing to intense industry competition. The price fluctuations also impact the company's realisations.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

SVPL was incorporated in May 2017 as a private limited company by Mr. Gautam Kanjiya and his family members and relatives. The company has set up a greenfield project at Wankaner in Morbi district, Gujarat, to manufacture glazed vitrified tiles, with an annual production capacity of ~73,500 metric tonne of vitrified tiles of 600mmX600mm, 600mmX1200mm and 200mmX1200mm dimensions. The company's operation commenced from May 2018. SVPL's promoters, Mr. Dipak Moradiya and Mr. Gautam Kanjiya have more than a decade's experience in the ceramic industry through their association with other ceramic entities.

Key financial indicators (Audited): Since SVPL commenced its operation from May 2018, key financial indicators of the company are not available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on September 30, 2018 (Rs. crore)	Date & Rating November 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
Term Loan	Long Term	26.69	25.81	[ICRA]B+ (Stable)	-	-	-
Cash Credit	Long Term	10.23	-	[ICRA]B+ (Stable)	-	-	-
Bank Guarantee	Short Term	3.00	-	[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: 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	FY2020	NA	FY2025	26.69	[ICRA]B+ (Stable)
NA	Cash Credit	NA	NA	NA	10.23	[ICRA]B+ (Stable)
NA	Bank Guarantee	NA	NA	NA	3.00	[ICRA]A4

Source: Solizo Vitrified Pvt. Ltd.

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