

Sudha Somany Ceramics Pvt. Ltd.

February 28, 2019

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based TL	58.50	[ICRA]BBB(Stable); Assigned
Total	58.50	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating factors in the operational and financial support of Sudha Somany Ceramics Pvt. Ltd. (SSCPL) from Somany Ceramics Limited (SCL, rated at [ICRA]A1+) leveraging on the latter's strong brand, established market position, vast distribution network and strong financial profile. The rating favourably factors in the assured offtake of glazed vitrified tiles by SCL along with the favourable location of its manufacturing unit in Andhra Pradesh in proximity to raw material leading to saving in freight costs and end-consumer markets.

The assigned rating is, however, constrained by the company's moderate project execution risk with the project in the advance stage of completion and expected commercial operation date (COD) in March 2019 and moderate scale of operation with an annual capacity of 3.5 million square per metre (MSM). Further, SSCPL's profit margins are vulnerable to fluctuations in raw material and fuel prices amid the intensely competitive ceramic tile industry and cyclical nature of the real estate industry, which is the key end-consumer for tiles. ICRA also notes that SCL is the sole client for SSCPL and thereby the company is dependent on SCL for revenue growth and remains exposed to any policy changes by SCL in terms of off-take and pricing.

Outlook: Stable

The Stable outlook reflects ICRA's belief that SSCPL will benefit from its operational association with SCL. Further, SSCPL will continue to benefit from the financial support extended by the promoters, if required. The outlook may be revised to Positive if timely completion and successful ramp-up of the manufacturing unit leads to higher revenues and profitability, and better working capital management strengthens the financial risk profile. Further, the outlook may be revised to Negative if any delay in completion of capital expenditure, or weaker-than-expected ramp up in operations, or cash accrual is lower than expected weakening the liquidity.

Key rating drivers

Credit strengths

Operational and financial support from SCL: SSCPL is a subsidiary of SCL with the latter holding 60% stake in SSCPL and the remaining 40% is held by Sudha Agro Oil and Chemical Industries Limited (SAOCIL), which is into solvent extraction (rice bran and de-oiled bran). The operational and financial support from SCL will help SSCPL in leveraging on the SCL's strong brand, established market position, vast distribution network and strong financial profile.

Limited offtake risk: SSCPL is setting up a glazed vitrified tile manufacturing facility in Andhra Pradesh with an installed capacity of 3.5 MSM per annum. SSCPL’s entire production will be sold to SCL, limiting offtake risk and enabling savings in terms of the marketing and distribution overheads. Further, the tiles manufacturing unit is located in Andhra Pradesh, in proximity to raw material and fuel sources, which is expected to result in saving in freight costs.

Credit challenges

Execution risk and operational risk with SSCPL yet to achieve commercial operation: The company is exposed to moderate project execution risk with the project in its advance stage of completion and the expected COD in March 2019. Timely completion and successful ramp-up of the manufacturing unit leading to achieving the expected scale of operations and profitability would be a key rating monitorable.

Profitability to remain susceptible to raw-material and fuel-price fluctuations: Raw materials and fuel are the two major cost components in tiles production, which determines the cost competitiveness of the operations. SCPL has limited control over the prices of key inputs such as natural gas and other raw materials exposing its profitability to raw material and fuel price fluctuations.

Stiff competition in the industry: The domestic ceramic tile industry faces intense competition due to the presence of many organised as well as unorganised players. The cyclical nature of the real estate industry, which is the key end-consumer, adds to the challenge of maintaining the growth in revenue and operating margins.

Liquidity position

The company had a free cash and bank balance of Rs. 0.41 crore as on March 31, 2018. Going forward, with repayment commencing from April 2020, the liquidity position would remain moderate in the near term. Given that a predominant share of the project cost has already been funded, the expected sanction in working capital limits would support its liquidity in the near term. Further, its liquidity profile would be supported by the presence of a debt service reserve account (DSRA) for one quarter repayment obligations. The DSRA for payment of interest shall be created within 15 days from the COD. DSRA for payment of principal shall be created 90 days prior to the first repayment date. ICRA expects SSCPL to benefit from the financial support extended by the promoters, if required.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	ICRA expects SSCPL to benefit from the financial support extended by the promoters, SCL and SAOCIL if required.
Consolidation / Standalone	The rating is based on standalone financial statements of the company.

About the company

SSCPL, incorporated in 2016, is based out of Chittoor district, Andhra Pradesh and would be involved in manufacturing of glazed vitrified tiles with a capacity of 3.5 MSM per annum. The plant is expected to achieve COD in March 2019. The company is promoted by Somany Ceramics Limited (SCL, [ICRA]A1+ rated), which holds a 60% stake in SSCPL, and the remaining 40% stake is held by Sudha Agro Oil and Chemical Industries Limited.

Key financial indicators

	FY2017	FY2018
Operating Income (Rs. crore)	NA	NA
PAT (Rs. crore)	-0.14	-0.07
OPBDIT/OI (%)	NA	NA
RoCE (%)	NA	NA
Total Debt/TNW (times)	NA	0.32
Total Debt/OPBDIT (times)	NA	NA
Interest Coverage (times)	NA	NA

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 (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Term loan	58.50	57.50	Feb 2019 [ICRA]BBB (Stable)	-	-	-

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 1	6-Nov-17	NA	March 2027	58.50	[ICRA]BBB(Stable)

Source: SSCPL

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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