

Qutone Tiles Pvt. Ltd.

February 10, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	108.16	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB- (Triple B Minus)
Short term Bank Facilities	4.39	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Facilities	112.55 (Rupees One Hundred Twelve Core and Fifty Five Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The revision in the ratings of the bank facilities of Qutone Tiles Pvt. Ltd (QTPL) takes into account increase in the combined scale of operations along with improvement in profitability of Qutone Group [comprising of QTPL, Qutone Ceramic Pvt. Ltd. (QCPL) and Qutone Granito Pvt. Ltd. (QGPL)]. The revision in ratings also takes into account successful completion and stabilization of the tile manufacturing projects under QGPL and QTPL.

The ratings continue to derive strength from the wide experience of the promoters of Qutone Group in the ceramic tile industry, its strategic presence in the ceramic tile cluster of Gujarat, established marketing and distribution network, effective working capital management and geographically diversified presence with growth in export sales. The ratings also favourably factor gradual shift in the product mix offered by the Qutone group from low margin products to high margin unique product portfolio including large sized tile slab (iMarble).

The ratings, however, continue to remain constrained due to moderation in the capital structure (on a combined basis) due to recently completed large sized debt funded capex, susceptibility of the profitability margins to volatile input prices, inherent working capital intensive nature of operations and its presence in the highly competitive ceramic tile manufacturing industry which also has close linkages to the cyclical real estate sector.

Qutone Group's ability to further increase its scale of operations through optimum utilization of its recently expanded tile manufacturing capacities and successful introduction of new designs by leveraging upon its marketing & distribution network so as to further improve its profitability and debt coverage indicators in a competitive industry shall be the key rating sensitivities. Efficient management of its working capital requirement along with significant improvement in its capital structure shall be the other critical rating sensitivities.

Detailed description of the key rating drivers

The management team of QTPL consists of Mr. Manoj Agrawal, Mr. Sunil Manglunia and Mr. Jagdish Dalsaniya who have vast experience of over a decade and have established a business network in the ceramic tiles business through their other group concerns.

QTPL's manufacturing facility is located at Morbi, Gujarat which is one of the largest ceramic clusters in India. Primary raw material is easily available from Gujarat and parts of Rajasthan while glaze material (frit) is sourced from Mumbai and Gujarat. The company uses liquefied natural gas (LNG) as fuel for firing of kilns which is supplied by a Gujarat State PSU. Moreover, the vicinity of the city to major ports (such as Kandla and Mundra) also lowers down the transportation cost and thus helps the exporters of ceramic from that region.

QCPL is the flagship company of the Qutone group and commenced operations from October 2008. Subsequently, in February 2014, Qutone group acquired Belleza Granito Pvt. Ltd. and renamed it as QGPL. Hence FY15 was the first full year of operations of QGPL under the Qutone group. QGPL completed a project to enhance its manufacturing capacity from 25.90 lmpa to 66.00 lmpa along with addition of new product i.e. double charge vitrified tiles during FY16. QTPL

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

was engaged in the business of ceramic clay manufacturing. Recently, QTPL has installed a vitrified tile unit for manufacturing of large sized vitrified tile slab with an installed capacity of 21.12 lac square meters per annum (lsmqa). The vitrified tile manufacturing facility achieved Commercial Operations Date (CoD) in March 2016 as per its schedule.

The financial performance of the group has gradually improved over the years on account of improved distribution network and better brand presence along-with shifting to value added products. The total operating income of the Qutone group has increased from Rs.114.04 crore during FY14 (refers to the period from April 1 to March 31) to Rs.170.34 crore during FY16. Further, with gradual ramp-up of operations of the recently completed manufacturing facility of QTPL and enhanced manufacturing facility of QGPL, the total operating income of group has improved to Rs.170.54 crore during 7MFY17 (which is almost equal to the TOI that the group achieved in FY16). With the increase in sales proportion of high value products as against the low value soluble salt tiles, the profitability margins and interest coverage have also improved during FY16 & 7MFY17. The capital structure on a combined basis has moderated as on March 31, 2016 as compared to March 31, 2015. This is on account of the recently executed large sized capex in QGPL and QTPL.

During FY16, the group has undertaken various marketing and branding initiatives to further enhance the brand presence. Group has hired cine-stars Anil Kapoor and Yami Gautam as their brand ambassadors during FY16. Over the years, the Qutone Group has established a strong dealer / distributor network in the domestic and export markets and the company majorly sells its products through its dealers/distributors. Presently the group has a network of more than 800 dealers / distributors along with sales depots spread across India. Furthermore, group has gradually expanded its presence in the export market with catering to countries which includes Italy, Germany, UK, Brazil, Taiwan, Korea, Singapore, Middle East countries etc. During FY16, out of the total sales of the Qutone group, 32% was the share of exports.

The tile manufacturing sector is inherently working-capital intensive in nature mainly due to large inventory holding. QTPL manufactures tiles of various designs and sizes and to cater the increasing demand from the existing market it has to keep high inventory of the finished goods. Furthermore, it has to keep sufficient amount of finished goods inventory at the depots for better customer service and faster deliveries. Further, credit period allowed to customers remains high mainly due to increased competition. Around 30% of the sales of the Qutone group are in the export market, wherein payment is majorly against LC, which mitigates the credit risk.

Prices of raw material i.e. clay is market driven which due to higher demand is expected to remain firm and put pressure on the margins of tile manufacturers. One of the major cost components in tile manufacturing industry is the fuel cost which is used to fire the furnace. Qutone Group uses natural gas and coal for the same, the prices which have shown a fluctuating trend in the past which might impact the profitability of the group. However QTPL has Minimum Guarantee Off-take (MGO) contract with Gujarat Gas which ensure relatively lower cost of fuel. Also, the fluctuation in the fuel price is passed on to the customers, however with some time lag. Hence, Qutone group's ability to control its cost structure in the light of fluctuating cost of key raw materials and fuel would be critical.

The ceramic tile industry in India is highly competitive. QTPL faces direct competition from the larger established players having better brand visibility. Hence, the group's ability to grow its scale of operations with optimum utilization of its manufacturing capacity in the light of competitive vitrified tile industry and subdued demand from real estate sector currently is of key importance.

Analytical approach: Combined

Qutone Group includes three companies operating in similar line of business viz. QTPL, Qutone Granito Pvt. Ltd. (QGPL) and Qutone Ceramic Pvt. Ltd. (QCPL). Promoters of Qutone Group initially incorporated QCPL which has wall tile manufacturing facility. Subsequently, during FY14 (refers to the period from April 1 to March 31), promoters acquired the operational manufacturing facility of QGPL from its erstwhile promoters which had vitrified tile manufacturing facility whose capacity was further enhanced in FY16 to add double charge vitrified tiles. During FY16, promoters have installed a unique/niche product line of large sized vitrified tiles (named as iMarble; a cost-efficient substitute of natural marble) under QTPL. As a group policy, both QGPL & QTPL largely sell their entire production to QCPL and in turn QCPL sells the same in the market to end-customers. All the products are sold under the common brand name 'Qutone' with common management control and distribution network. Manufacturing facilities of all three units are located in the ceramic tile hub of Morbi, Gujarat. Accordingly, CARE has taken a combined analytical approach.

Applicable Criteria[CARE's methodology for manufacturing companies](#)[Criteria on assigning Outlook to Credit Ratings](#)[CARE's Policy on Default Recognition](#)[Criteria for Short Term Instruments](#)[Financial ratios - Non- Financial Sector](#)[Rating Methodology: Factoring Linkages in Ratings](#)**About the Company**

Incorporated in March 2012, QTPL is part of the Morbi based Qutone group. Previously, QTPL was into the business of ceramic clay manufacturing at its plant located at Wankaner in Rajkot District of Gujarat, which is a ceramic tile hub. Subsequently, QTPL has installed a vitrified tile unit for manufacturing of large sized vitrified tile slab with an installed capacity of 21.12 lac square meters per annum (lmpa). The vitrified tile manufacturing facility achieved Commercial Operations Date (CoD) in March 2016 as per its schedule.

During FY16 (refers to the period April 1 to March 31), QTPL (on a standalone basis) reported a total operating income of Rs.7.68 crore (FY15: Rs.17.73 crore) with a PAT of Rs.0.23 crore (FY15: Rs.0.65 crore). As per the un-audited results for 7MFY17, QTPL (on a standalone basis) has reported a total operating income of Rs.30.46 crore with a PBT of Rs.1.24 crore.

During FY16, Qutone Group (on a combined basis) had a total operating income of Rs.170.34 crore (FY15: Rs.166.24 crore) with a PAT of Rs.11.70 crore (FY15: Rs.7.72 crore). As per the un-audited results for 7MFY17, Qutone Group (on a combined basis) has a total operating income of Rs.170.54 crore with a PBT of Rs.13.13 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure 1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund Based - LT-Term Loan	NA	NA	Jul 01, 2023	68.16	CARE BBB; Stable
Fund Based - LT-Cash Credit	NA	NA	NA	40.00	CARE BBB; Stable
Non-Fund Based - ST-Bank Guarantees	NA	NA	NA	4.39	CARE A3+

NA: Not Applicable

Annexure 2 Rating History for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund Based - LT-Term Loan	LT	68.16	CARE BBB; Stable	-	1)CARE BBB-(11-Dec-15)	-	-
2.	Fund Based - LT-Cash Credit	LT	40.00	CARE BBB; Stable	-	1)CARE BBB-(11-Dec-15)	-	-
3.	Non-Fund Based - ST-Bank Guarantees	ST	4.39	CARE A3+	-	1)CARE A3 (11-Dec-15)	-	-

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