Simero Vitrified Private Limited

April 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	66.34 (Reduced from 72.34)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Reaffirmed**
Long Term / Short Term Bank Facilities	6.25	**CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable/ A Three)**	**Reaffirmed**
Total Facilities	**72.59 (Rs. Seventy-Two Crore and Fifty-Nine Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

For arriving at the ratings of Simero Vitrified Private Limited (SVPL), CARE has taken a combined view of Simero Group (SG) entities namely, SVPL and Simero International LLP (SILLP) due to their operational (same line of operations and around 93% of SILLP's sales is to SVPL) and managerial linkages (common promoters).

The ratings assigned to the bank facilities of SVPL continue to derive strength from the vast experience of promoters in ceramic tile industry, strategic location of SG's manufacturing facilities in the ceramic tile cluster of Gujarat and SG's established marketing & distribution network in the domestic market.

The ratings also factor in improvement in capacity utilisation during FY20 (refers to the period April 01 to March 31) and 9MFY21 (refers to the period April 01 to December 31), stable scale of operations and operating profitability and adequate liquidity.

The ratings, however, continue to remain constrained on account of SG's moderate leverage and debt coverage indicators, susceptibility of SG's profitability to volatility in raw material & fuel prices and its presence in highly competitive and fragmented ceramic tile industry, which has strong linkages with the cyclical real estate sector. The ratings are also constrained on account of increase in working capital intensity of SG marked by elongation of its working capital cycle and gross current asset days.

CARE notes that SVPL has availed the moratorium on its debt obligations from March 2020 till August 2020 as a COVID-19 relief measure (as permitted by the Reserve Bank of India).

Key Rating Sensitivities:

Positive Factors:

- Increase in capacity utilisation levels and total operating income (TOI) while maintaining current profitability levels on a sustained basis.
- Improvement in capital structure resulting in overall gearing of less than unity on a sustained basis.

Negative Factors:

- Decline in PBILDT margin to 15.50% or below on a sustained basis.
- Debt-funded capex resulting in moderation of overall gearing above 2 times.
- Elongation of working capital cycle beyond FY20 numbers, ie. 200 days

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with an established track record of operations through associate entities: SG is promoted by the members of Adroja, Tanna, Kaneriya and Shiravi family who have vast experience in the ceramic tile industry through various associate companies. The promoters have also provided financial support to group entities through infusion of interest free unsecured loans.

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[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Established marketing and distribution network of SG: SVPL commenced its operations in October 2015 and over the last four years, it has expanded its marketing and distribution network in the domestic market. As on December 31, 2020, SG has over 700 dealers/distributors across the nation with exclusivity in size with few dealers. SILLP sells almost its entire production to SVPL, which is then sold by SVPL under 'Simero' brand.

Location advantage with presence in the ceramic tile manufacturing cluster of India: The manufacturing facilities of SG are located in Morbi (Gujarat) which is the second-largest ceramic cluster of the world after Foshan, China. It provides advantage in terms of raw material sourcing and availability of skilled manpower. Moreover, the vicinity of the city with major ports such as Kandla and Mundra, lowers down the transportation cost, helping the exporters in the region.

Stable scale of operations and profitability: In FY20, the TOI of SG remained stable at Rs.216.21 crore (FY19: Rs.203.14 crore). The revenue profile of SG remains fairly diversified with top 10 customers forming only 16.62% of TOI during FY20. PBILDT margin, albeit moderated by 175 bps, remained healthy at 18.62% in FY20, on account of moderation in sales realisation. However, decrease in interest and depreciation cost resulted in improvement in PAT margin by 69 bps y-o-y to 5.06% during FY20.
Average capacity utilisation of SG improved during FY20 to 70% (FY19: 57%) on account of scaling up of manufacturing operations of SILLP and increase in demand of large-size tiles (Slabs) in the domestic market. Despite nationwide lockdown to contain the spread of Covid-19 virus and slower recovery in demand from metro cities, SG was able to scale up its operations and report healthy average capacity utilisation at 70% in 9MFY21.
As per provisional results for 9MFY21, SG reported TOI of Rs.146.49 crore with a largely stable PBILDT margin of 18.75%, as compared to 18.62% in FY20.

Key Rating Weaknesses
Increase in working capital intensity of the group: Ceramic tile manufacturing sector has high working capital intensity mainly due to higher inventory holding and extension of elongated credit period to dealers. SG manufactures tiles of various designs and sizes to cater to the market demand resulting in a sizeable inventory of the finished goods. Furthermore, it also needs to keep a sufficient amount of finished goods inventory at the depots for better customer service and faster deliveries. Apart from above, with increase in number of dealers/distributors the inventory holding period also increased as on March 31, 2020. The credit period allowed to dealers/distributors also remains high due to intense competition in the domestic market. Consequently, working capital cycle of SG elongated to 200 days (148 days for FY19). The incremental working capital requirement was funded through a mix of Gross cash accruals (GCA) and bank borrowings.

Moderate leverage and debt coverage indicators: SG's overall gearing, albeit improved, remained moderate at 1.90x as on March 31, 2020 (2.35x as on March 31, 2019), mainly due to debt-funded capex in SILLP as well as higher reliance on working capital borrowings to fund the working capital-intensive operations of SG.
Debt coverage indicators of SG improved marginally during FY20 on account of scheduled debt repayments. SG's Total Debt/GCA improved to 6.61x as on March 31, 2020 (FY19 end: 7.82x). Further, PBILDT interest coverage of SG improved marginally to 2.51x during FY20 from 2.20x during FY19, on account of reduction in interest expense for the year.

Susceptibility of profitability to volatility in prices of fuel and raw materials*:* Raw material (i.e. various types of clay) and power & fuel cost (i.e. Natural Gas) are the major components of SG's cost structure. Considering prices of both (clay and natural gas) are market-driven, the inability of the company to pass it on to its customers may exert pressure on the profitability of the company.

Presence in highly competitive and fragmented ceramic tile industry, with strong linkages to cyclical real estate sector:
The ceramic tile industry in India is highly competitive. Low entry barriers, easy availability of raw material and limited initial capital investment requirement has attracted large influx of unorganized and regional players. Hence, SG's ability to scale up its operations and achieve healthy capacity utilisation levels in the light of competitive vitrified tile industry would be crucial. Furthermore, moderation in demand from the end-user industry, which is strongly correlated with economic activities, has also impacted the demand of ceramic tiles in the past. However, due to anti-china movement and faster than expected recovery of demand in the domestic market, scaling up of operations by ceramic tile entities

has been faster than envisaged. Sustainability of this growth domestic as well as export demand seen from Q2FY21 (refers to period July 2020 till September 2020) remains a key monitorable going forward.

Liquidity: Adequate

The liquidity profile of SG derives comfort from healthy cash accruals and need-based financial support from promoters. However, elongation in working capital cycle led by increase in collection period and inventory period at March 2020 end resulted in high average utilisation of fund-based working capital limits at 91% for the trailing twelve months ended on December 2020. The cash accruals and cash flow from operations of SG for FY20 remained healthy at Rs.22.16 crore and Rs.30.97 crore respectively. The current ratio and quick ratio of SG remained stable at 1.17x (1.16x as on March 31, 2019) and 0.57x (0.63x as on March 31, 2019) respectively as on March 31, 2020. Going forward, SG is expected to generate cash accruals ranging from Rs.21-31 crore as against annual debt repayment obligations of Rs.14-19 crore from FY21 to FY23.

Furthermore, to aid the liquidity of the group, SG availed moratorium on its debt obligations from March 2020 till August 2020 as well as COVID-19 Emergency Credit Line (CECL) of Rs.1.50 crore.

Analytical approach: Combined

A combined analytical approach has been considered for SVPL and SILLP (referred to as SG) on account of the following:

- SILLP is a limited liability partnership (LLP) wherein SVPL holds a majority 53.45% stake of its fixed capital. The balance 46.55% is held by various members of the Adroja, Kaneriya, Shiravi and Tanna families among others. Both entities are operating under the same management with overall responsibilities divided between these partners/ promoters.
- Both the entities are in a similar line of business (ceramic tiles manufacturing)
- SILLP sells almost its entire production to SVPL (approx. 93% during FY20)

Applicable Criteria

CARE's Policy on Default Recognition
Criteria on assigning Outlook and Credit Watch to Credit Ratings
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology: Consolidation

About the Company

SVPL

Incorporated in June 2014, Simero Vitrified Private Limited (SVPL) is a Morbi based entity, jointly promoted by members of Adroja, Tanna, Kaneriya and Shiravi family. SVPL primarily focusses on manufacturing slabs of 600*1200mm. Commercial operations from its manufacturing plant with an installed capacity of 98,475 Metric Tonnes Per Annum (MTPA) at Morbi commenced from October 2015.

SILLP

Simero International LLP (SILLP) was incorporated as a limited liability partnership by Mr. Vishal Adroja, Mr. Nitin Shiravi, Mr. Amit Tanna and Mr. Pratik Kaneriya. SILLP primarily focusses on manufacturing slabs of 800*1600mm, 1200*1200mm and 1200*2400mm. Commercial operations from its manufacturing plant with an installed capacity of 63,210 MTPA commenced from February 2018.

Brief Financials (Rs. crore)	Combined (SG)		Standalone (SVPL)	
	FY19 (UA)	FY20 (UA)	FY19 (A)	FY20 (A)
Total operating income	*203.14	*216.21	208.10	211.98
PBILDT	41.38	40.26	26.36	25.53
PAT	8.88	10.94	7.83	8.97
Overall gearing (times)	2.35	1.90	2.08	1.53
Interest coverage (times)	2.20	2.51	2.62	3.03

*A: Audited; UA: Unaudited *excluding intercompany transactions*

During 9MFY21, SG reported net sales of Rs.149.49 crore.

Status of non-cooperation with previous CRA: None
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Instruments/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	-	-	October 2022	16.34	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	50.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	6.25	CARE BBB-; Stable / CARE A3

Annexure-2: Rating History of 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	16.34	CARE BBB-; Stable	-	1)CARE BBB-; Stable (25-Feb-20)	1)CARE BBB-; Stable (07-Jan-19)	1)CARE BBB-; Stable (12-Mar-18)
2.	Fund-based - LT-Cash Credit	LT	50.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (25-Feb-20)	1)CARE BBB-; Stable (07-Jan-19)	1)CARE BBB-; Stable (12-Mar-18)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ ST	6.25	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (25-Feb-20)	1)CARE BBB-; Stable / CARE A3 (07-Jan-19)	1)CARE BBB-; Stable / CARE A3 (12-Mar-18)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

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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