

Qutone Ceramic Private Limited

September 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	237.59 (Reduced from 257.85)	CARE BBB-; Stable	Reaffirmed
Short Term Bank Facilities	26.04 (Reduced from 27.79)	CARE A3	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

CARE Ratings Limited has withdrawn the rating assigned to the bank facility from Axis bank and Federal bank on the receipt of 'No due Certificate'.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Qutone Ceramic Private Limited (QCPL) continues to derive strength from the vast experience of promoters in the ceramic industry, QCPL's established dealership & distribution network with strong brand positioning in the domestic market, well-diversified customer base along with strategic presence in the ceramic tile cluster of Gujarat. The ratings also continue to take cognizance of some moderation in scale of operations with moderate profitability in FY24 (Audited) (refers to the period April 01 to March 31), largely attributable to global geopolitical upheaval resulting in moderation in overall demand.

The above rating strengths, however, are partially offset by QCPL's moderate capital structure, elongated operating cycle and working capital intensive nature of operations. The ratings continue to remain constrained on account of its presence in a highly competitive and fragmented tile industry due to homogenous product profile marked by few large-organised players as well as numerous small scale tile manufacturers, strong linkages of the industry with the cyclical real estate sector and susceptibility of its profitability to volatile raw material & fuel cost considering the time lag in passing it entirely to the customers.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial increase in its scale of operations along with improvement in PBILDT margin above 18% on a sustained basis.
- Improvement in capital structure with overall gearing below unity along with improvement in debt coverage indicators on a sustained basis.
- Significant reduction in operating cycle on a sustained basis.

Negative factors

- Decline in PBILDT margin by more than 200 bps.
- Significant elongation in the operating cycle on a sustained basis.
- Any debt-funded capex or increase in working capital borrowings which results in deterioration in leverage and debt coverage indicators in the medium term.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the QCPL will continue to derive benefit from its experienced promoters having long-track record of operations and QCPL's brand positioning in the ceramic industry.

¹Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Detailed description of key rating drivers:**Key strengths****Experienced management and established distribution network**

Under the leadership of the experienced management and QCPL's long track record of operations in the ceramic industry, expansion of its product portfolio and established marketing and distribution network, the company has developed a strong brand recall of 'Qutone' for value-added tiles. QCPL exports to more than 60 countries and has a nation-wide marketing network with dedicated dealers, regional offices and company-owned showrooms across India.

Location advantage with presence in the ceramic tile manufacturing cluster of India

The manufacturing facilities of QCPL are located at Wankaner in Rajkot district of Gujarat, which is the largest ceramic cluster in India. It provides advantage in terms of raw material sourcing and easy availability of skilled manpower. Clay and glaze frit is easily available from Gujarat & parts of Rajasthan and fuel (liquefied natural gas/ propane) for firing of kilns is supplied by a Gujarat State PSU, Gujarat Gas Ltd, and propane by other private players. Moreover, the vicinity of the city to major ports (such as Kandla and Mundra) also lowers the transportation cost and thus helps the exporters of ceramic from the region.

Moderate scale of operations and profitability

During FY24, the TOI of QCPL moderated marginally albeit remained stable at Rs. 428.70 crore (PY: Rs.455.09) crore on account of disruption in export sales due to 'Red Sea Crisis' and situation of Russian-Ukraine war.

The proportion of high value products i.e. large sized tiles/slabs and glazed vitrified tiles (GVT) remained high at 42% and 55% respectively (PY: 42% and 54% each) with wall tiles comprising of 4% (PY: 3%) of the total sales in FY24.

Further, the average capacity utilisation of QCPL (in both slab tile and GVT) reduced to 52% (Slab tile: 51% and GVT: 53%) in FY24 (PY: 60% (Slab tile: 52% and GVT: 68%)) on account of subdued demand scenario in domestic and export market. Consequent to above, the PBILDT margin, of the company moderated albeit remained healthy at 15.93% in FY24 (PY: 16.20) owing to lower absorption of overheads. However, with reduction in finance cost in FY24 over FY23, the PAT margin of the company improved by 44 bps in FY24 to 2.80% as compared to 2.36% in FY23.

QCPL has reported gross cash accruals (GCA) of Rs. 39.24 crore in FY24 (PY: Rs. 42.40 crore).

As per the provisional financials for Q1FY25 (refers to the period April 01 to June 30), the company reported TOI of Rs. 101.56 crore and PBILDT of Rs. 16.17 crore. Till August 28, 2024, the company has reported sales of Rs.180 crore.

Key Weaknesses**Moderate capital structure and debt coverage indicators**

QCPL's capital structure improved and remained moderate marked by overall gearing level of 1.00 times as on March 31, 2024 (PY: 1.25 times as on March 31, 2023) on account of scheduled reduction in term debt along with accretion of profits to reserves. The company's net worth base improved over the period of years to Rs. 240.52 crore as on March 31, 2024 (FY21: Rs. 191.01 crore).

The debt coverage indicators continue to remain moderate marked by long term debt to equity and term debt to PBILDT of 0.25 times (PY: 0.75 times) and 1.63 years (PY: 2.17 years) respectively in FY24. The interest coverage ratio remained stable at 2.60 times in FY24 as compared to 2.58 times in FY23.

Working capital intensive nature of operations

Apart from the inherent requirement of the Indian ceramic industry to maintain higher inventory levels (due to vast product portfolio, better customer service and faster deliveries), QCPL's inventory (primarily finished goods) holding period and operating cycle remained high at 202 days (PY:181 days) and 188 days (PY: 174 days) respectively as on March 31, 2024 on account of management's focus on maintaining receivables efficiency in the domestic as well as international markets.

Consequently, the gross current asset days remained high at 265 days in FY24 (PY: 218 days). The current ratio and quick ratio remain moderate at 1.13 times and 0.40 times respectively as on March 31, 2024

Exposure to volatility in prices of natural gas and key raw materials

The prices of major raw material i.e. clay and fuel (natural gas) constitute a major part of the cost structure of an entity in the ceramic tile industry. Considering prices of both (clay and natural gas) is market driven, inability of the company to pass it on to its customers may exert pressure on profitability of the company.

Presence in a highly competitive tile industry with significant capacity additions underway in the region along with its linkages with the cyclical real estate industry

The ceramic industry is highly competitive and fragmented with the presence of numerous organized as well as unorganized players manufacturing a homogenous product profile i.e. GVT and slabs for domestic and international markets. Moreover, with increase in competition in the wall tiles segment, QCPL has discontinued operations of its wall tiles unit. The ceramic tile industry has strong linkages with the real estate industry, which, in India is highly fragmented and cyclical.

Liquidity: Adequate

QCPL's liquidity remains adequate characterised by moderate cash accruals vis-à-vis its debt repayment obligations. The reliance on working capital limits stood high marked by average utilisation of fund-based limits in the range of 80% to 88% during the trailing 12 months ended July 2024.

During FY24, QCPL's cash flow from operations moderated to Rs. 51.36 crore in FY24 from Rs. 71.44 crore in FY23. This reduction is attributed to a rise in inventory levels, caused by delays in export order releases due to the Red Sea crisis, along with increase in receivables.

In FY25, QCPL is undertaking the modernisation capex along with the capex for installation solar power plant of Rs. 53.80 crore which is to be funded by term debt of Rs. 48.80 crore and balance by the internal accruals of the company. With this, the company's debt repayment obligation remains sizeable at around ₹31-₹35 crore, annually over next two years, though the same is expected to be serviced through its cash accruals.

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Withdrawal Policy](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Ceramics

Incorporated in 2008, Qutone Ceramic Private Limited (QCPL) is engaged in manufacturing of ceramic wall tiles & vitrified floor tiles. Post amalgamation with QGPL and QTPL and completion of capex, QCPL has an installed capacity of 16.50 lakh square meter per annum (lsmpla) of wall tiles, 75.90 lsmpla of glazed vitrified tiles and 66.00 lsmpla of large sized tiles as on March 31, 2023.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	455.09	428.70
PBILDT	73.74	81.21
PAT	10.73	12.00
Overall gearing (times)	1.25	1.00
Interest coverage (times)	2.58	2.60

A: Audited; Note: 'the above results are latest financial results available'

Note: As per the provisional financials for Q1FY25, the company has reported TOI of Rs. 101.56 crore and PBILDT of Rs. 16.17 crore. Till August 28, 2024, the company has reported sale of Rs. 180 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

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

Detailed explanation of covenants of rated facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	127.25	CARE BBB-; Stable
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	March 2033	110.34	CARE BBB-; Stable
Fund-based/Non-fund-based-Short Term		-	-	-	15.00	CARE A3
Non-fund-based - ST-BG/LC		-	-	-	11.04	CARE A3

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	127.25	CARE BBB-; Stable	-	1)CARE BBB-; Stable (05-Jul-23)	1)CARE BBB-; Stable (10-Jun-22)	1)CARE BBB-; Stable (25-Feb-22)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	-	-	-	1)Withdrawn (25-Feb-22)
3	Fund-based - LT-Term Loan	LT	110.34	CARE BBB-; Stable	-	1)CARE BBB-; Stable	1)CARE BBB-; Stable (10-Jun-22)	1)CARE BBB-; Stable (25-Feb-22)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
						(05-Jul-23)		
4	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	-	-	-	1)Withdrawn (25-Feb-22)
5	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BBB-; Stable (05-Jul-23)	1)CARE BBB-; Stable (10-Jun-22)	1)CARE BBB-; Stable (25-Feb-22)
6	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	-	1)Withdrawn (10-Jun-22)	1)CARE BBB-; Stable (25-Feb-22)
7	Non-fund-based - ST-BG/LC	ST	11.04	CARE A3	-	1)CARE A3 (05-Jul-23)	1)CARE A3 (10-Jun-22)	1)CARE A3 (25-Feb-22)
8	Fund-based/Non-fund-based-Short Term	ST	15.00	CARE A3	-	1)CARE A3 (05-Jul-23)	1)CARE A3 (10-Jun-22)	1)CARE A3 (25-Feb-22)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of instruments rated

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

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:

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