Simero Vitrified Private Limited

February 25, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	72.34 (enhanced from 71.36)	**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	**78.59 (Rupees Seventy Eight 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 considered the combined business and financial risk profiles of SVPL and its associate company, Simero International LLP (SILLP), collectively known as Simero Group (SG) due to their operational & financial linkages and common promoter group.

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

The ratings also factor in the significant improvement in scale of operations and operating profitability during FY19 (refers to the period April 01 to March 31) post commencement of SILLP's operations in February 2018 along with adequate liquidity. The ratings also take cognizance of moderation in capacity utilisation during FY19 and subsequent improvement during H1FY20.

The ratings, however, continue to remain constrained on account of SG's moderate leverage and debt coverage indicators, working capital intensive nature of operations and susceptibility of SG's profitability to volatility in raw material & fuel prices. The ratings also continue to remain constrained on account of its presence in highly competitive and fragmented ceramic tile industry, which has strong linkages with the cyclical real estate sector.

Rating Sensitivities

Positive Factors:

- Sustainable increase in capacity utilization levels while maintaining current profitability levels.
- Reduction in operating cycle to below 100 days on a sustained basis.
- Improvement in capital structure resulting in overall gearing of less than 1.50x on a sustained basis.

Negative Factors:

- Decline in PBILDT margin to 15.50% or below on a sustained basis.
- Inability to improve the operating cycle to below 130 days and gross current asset days to below 180 days.

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 a wide experience of nearly a decade in the ceramic tile industry. The promoters have also demonstrated a track record of providing financial support to SVPL and SILLP via interest free unsecured loan, as and when required.

Established marketing and distribution network of SVPL: SVPL commenced its operations in October 2015 and over the last four years, it has established a strong marketing and distribution network with over 400 dealers/distributors spread across the nation. 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 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.

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

Significant improvement in scale of operations and profitability: With FY19 being the first full year of operations for SILLP, the total operating income (TOI) of SG grew by 75% y-o-y to Rs.215.93 crore during FY19. The revenue profile of SG remains fairly diversified with revenue from the top 10 customers forming only 17.87% and 21.40% of TOI during FY19 and H1FY20 (refers to the period April 01 to September 30) respectively.
Operating profitability of SG marked by PBILDT margin improved by 336 bps to 19.32% during FY19 on account of an increase in the sale of large-size size tiles produced by SILLP, which yield better margins. However, increase in interest and depreciation cost due to debt-funded capex in SILLP moderated the improvement in PAT margin to 68 bps to 4.11% during FY19.
The average capacity utilisation of SG declined during FY19 to 57% from 68% during FY18 on account of initial phase of operations under SILLP and subdued demand scenario in the market. However, during H1FY20, the average capacity utilisation of SG improved and stood healthy at 76%.
As per provisional results for H1FY20, SG reported TOI of Rs.103.04 crore at a healthy PBILDT margin of 18.44%.

Key Rating Weaknesses
Working capital intensive nature of operations: 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. The credit period allowed to dealers/distributors also remains high due to intense competition in the industry. Consequently, the working capital cycle of SG remained high at 138 days for FY19 (153 days for FY18).
Furthermore, with a significant increase in the scale of operations of SG during FY19, the working capital requirement also increased during the year. The incremental working capital requirement was funded through a mix of bank borrowing and interest free unsecured loans from promoters & relatives.

Moderate leverage and debt coverage indicators: SG's overall gearing, albeit improved, remained moderate at 2.35x as on March 31, 2019 (2.73x as on March 31, 2018), mainly due to recently completed capex in SILLP as well as high working capital borrowings to fund the working capital intensive operations of SG.
Debt coverage indicators of SG improved during FY19 on account of an increase in the scale of operations and improvement in profitability. SG's total debt/gross cash accruals improved from 14.95x as on March 31, 2018 to 7.82x as on March 31, 2019. Interest coverage of CG improved marginally from 2.12x during FY18 to 2.20x during FY19.

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: Low entry barriers, easy availability of raw materials and limited initial capital investment requirement have attracted a large influx of regional and unorganised players in the ceramic tiles industry making it highly competitive. Apart from unorganised players, SG also faces stiff competition from established players in the organised market. Notwithstanding above, subdued demand from the real estate sector and a situation of oversupply in the Morbi cluster have resulted in pressure on sales realisation. Nevertheless limited usage of ceramic tiles in India as a flooring option when compared with other countries, rapid urbanisation, increasing disposable income of nuclear families and untapped rural market and stable replacement demand are envisaged to augur well for the Indian ceramic tile industry in the long term.

Liquidity: Adequate
The liquidity profile of SG derives comfort from healthy cash accruals and need-based financial support from promoters. The promoters infused interest free unsecured loans amounting to Rs.4.36 crore during FY19 to support the operations of SG. However, elongated working capital cycle and an increase in the scale of operations in SILLP has resulted in high average utilisation of fund-based working capital limits at 96% for the trailing twelve months ended on December 2019. The cash accruals and cash flow from operations of SG for FY19 remained healthy at Rs.20.20 crore and Rs.10.77 crore respectively. The current ratio and quick ratio of SG improved to 1.15x (1.06x as on March 31, 2018) and 0.62x (0.59x as on March 31, 2018) respectively as on March 31, 2019. Going forward, SG is expected to generate cash accruals in the range of Rs.20.68 crore to Rs.27.64 crore as against annual debt repayment obligations of Rs.14.27 – 20.25 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. 91% during FY19), while SVPL sells it further in both domestic as well as export market under the brand name of 'Simero'.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial Ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies
Rating Methodology: Consolidation and Factoring Linkages in Ratings

About the Company
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 is engaged in manufacturing of double charged and full body vitrified tiles at Morbi (Gujarat) wherein commercial production commenced from October 2015. It has an installed capacity of 90,597 Metric Tonnes Per Annum (MTPA) as on March 31, 2019. SVPL markets its products under the brand name of *'Simero'.*
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. It is situated in the ceramic cluster of Morbi, Gujarat. SILLP is engaged in the production of large-sized Glazed Vitrified Tiles (GVT) and Polished Glazed Vitrified Tiles (PGVT). It commenced commercial operations in February 2018 with an installed capacity of 63,210 metric tonnes per annum (MTPA).

Brief Financials (Rs. crore)	Combined (SG)		Standalone (SVPL)	
	FY18 (UA)	FY19 (UA)	FY18 (A)	FY19 (A)
Total operating income	123.68*	215.93*	126.19	208.10
PBILDT	19.61	41.38	19.03	26.36
PAT	4.24	8.88	5.06	7.83
Overall gearing (times)	2.73	2.35	2.73	2.08
Interest coverage (times)	2.12	2.20	2.19	2.62

*A: Audited; *exluding intercompany transactions*
During 10MFY20, SG reported net sales of Rs.171.82 crore.

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

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

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	-	-	March 2022	22.34	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	22.34	CARE BBB-; Stable	-	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 (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 (07-Jan-19)	1)CARE BBB-; Stable / CARE A3 (12-Mar-18)	-

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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