Sunshine Tiles Company Private Limited
April 02, 2019

Ratings

<table>
<thead>
<tr>
<th>Facilities</th>
<th>Amount (Rs. crore)</th>
<th>Rating¹</th>
<th>Rating Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term Bank Facilities</td>
<td>192.27 (reduced from 206.75)</td>
<td>CARE BBB+; Stable (Triple B Plus; Outlook: Stable)</td>
<td>Revised from CARE A-; Stable [Single A Minus; Outlook: Stable]</td>
</tr>
<tr>
<td>Short-term Bank Facilities</td>
<td>51.52</td>
<td>CARE A2 (A Two)</td>
<td>Revised from CARE A2+ [A Two Plus]</td>
</tr>
<tr>
<td>Total Facilities</td>
<td>243.79 (Rs. Two hundred forty three crore and seventy nine lakh only)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings for the bank facilities of Sunshine Tiles Company Pvt. Ltd. (STCPL) factors in the decline in its profitability on account of increased operating expenses which could not be passed on to customers in a competitive market scenario along with deterioration in its debt coverage indicators during FY18 (FY refers to the period from April 1 to March 31) and 9MFY19.

The ratings however, continue to derive strength from the long standing experience of its promoters in the ceramic tiles industry, its established track record of operations and locational advantage of being present in the ceramic tile manufacturing cluster of Morbi, Gujarat. The ratings also factor STCPL’s established distribution and marketing network in domestic and overseas markets.

STCPL’s ratings continue to remain constrained on account of its leveraged capital structure led by increased debt due to merger of subsidiary, susceptibility of its profitability to volatility in input prices, working capital intensive nature of operations and its presence in a highly competitive ceramic tile manufacturing industry which has close linkages to the cyclical real estate sector.

The ability of STCPL to leverage upon its marketing & distribution network to improve its profitability in an intensely competitive industry scenario along with effective management of working capital requirements and improvement in its capital structure and debt coverage indicators shall be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

**Long-standing experience of the promoters in tiles industry:** The management of STCPL comprises of Mr. Govindbhai Varmora, Mr. Jagjivanbhai Patel, Mr. Bhudarbhai Varmora, Mr. Manojkumar Patel and Mr. Pravinbhai Patel who have a long standing experience in the ceramic tiles business through their other previous associations. Mr. Govindbhai Varmora has more than three decades of experience in the ceramic industry, initially through his association with other large ceramic tiles manufacturers and later on through STCPL, where he looks after the overall business strategy of the company. Mr. Jagjivanbhai Patel and Mr. Bhudarbhai Varmora both have more than 25 years of experience in the industry and look after the technical/new design functions and marketing functions respectively at STCPL.

**Locational advantage with presence in the ceramic tile cluster with easy access to raw material, power and fuel:** STCPL’s manufacturing facility is located at Morbi in Gujarat which is the largest ceramic cluster in India. Primary raw materials i.e. various types of clay and minerals are easily available from Gujarat and parts of Rajasthan. STCPL uses natural gas as fuel for firing of kilns. Also coal is used for the hot air dryer and is sourced from local suppliers. Moreover, location of major ports (such as Kandla and Mundra) nearby also results in low transportation costs and helps the exporters of ceramic tiles from this region.

**Strong distribution and marketing network in domestic and overseas markets:** STCPL sells its products under the brand name ‘Sunhearrt’. Over the years, STCPL has established a strong dealer network in the domestic and export markets. Presently the company has a network of more than 500 dealers spread across India. STCPL has also increased its overseas presence with establishment of its distribution network key export markets. In FY18, STCPL’s export sales constituted 39% of its net sales, which remained largely stable at 40% in 9MFY19. Further, to enhance its brand visibility in the market, STCPL established four showrooms in Ahmedabad, Cochin, Kolkata and Chennai and also expended heavily during FY18, as evident from increase in its selling expenses from Rs.22.85 crore in FY17 to Rs.38.88 crore in FY18.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications
Moderate liquidity: STCPL’s liquidity remained moderate as it secured enhancements in its working capital limits with increasing requirements following growth in scale of operations. Further, its operating cycle remained largely stable at 73 days during FY18. The average utilization of its fund based limits of Rs.146 crore remained moderate at around 58% during the last 12 months ended February 2019. STCPL’s term loan repayment requirements of around Rs.12.00-17.65 crore p.a. over the next 2-3 years ending FY21 are expected to be met through internal accruals, which though reduced are expected to be adequate for the requirements.

Key Rating Weaknesses
Decline in profitability and deterioration in debt coverage indicators during FY18 and 9MFY19: In FY18, STCPL reported a 43% y-o-y growth in its TOL to Rs.523.05 crore, which was largely driven by sale of large sized glazed vitrified tiles (manufactured in erstwhile SCCPL; since merged with STCPL) as well as increase in trade sales (from Rs.53.38 crore in FY17 to Rs.113.02 crore in FY18). However, STCPL’s PBILDT margin moderated to 7.63% during FY18, as the increase in operating overheads could not be passed on to customers in a competitive market scenario. Decline in operating profitability along with increase in finance costs owing to the capex concluded in FY18 led to decline in PAT margin to 1.18% compared with 3.31% in the previous year and lower cash accruals as well. STCPL’s PBILDT margin continued to remain subdued in 9MFY19. Interest and depreciation also continued to remained high, which impacted its PAT margin (1.59% in 9MFY19). STCPL had availed term loans for the capex in erstwhile Sunshine Ceratiles Co. Pvt. Ltd. (SCCPL) and for establishment of showrooms, which increased the long term debt on its books substantially. Bank borrowings availed for increased working capital requirements also contributed to the increase in outstanding debt, which along with lower cash accruals resulted in deterioration in its debt coverage indicators marked by a total debt to GCA of 7.22x during FY18 (P.Y.: 4.12x). STCPL’s capital structure continued to remain leveraged with an overall gearing of 1.66x as on December 31, 2018.

Working capital intensive operations: The operations of STCPL are working-capital intensive in nature mainly due to large inventory holding as well as credit period being allowed due to dealer/distributor led sales model. STCPL manufactures tiles of various designs and sizes and to cater readily to the demand from existing market, it needs to keep large inventory of finished goods, also at its warehouses for better customer service and faster deliveries. The credit period allowed to dealers/distributors also remains long due to intense competition in the industry. STCPL’s operating cycle remained largely stable at 73 days in FY18 as compared to 71 days in FY17.

Susceptibility of profitability to volatility in prices of fuel and key raw materials: The prices of major raw material consumed for manufacturing of tiles, i.e. clay is market driven and any adverse movement in the same which the manufacturer is not able to pass on to its customers due to intense competition in the industry can might put pressure on its profitability. Another major cost component in tile manufacturing is fuel cost for firing the baking kiln and for spray dryers. STCPL primarily uses natural gas for the same, the price of which is volatile in nature and could also adversely impact profitability if STCPL is not able to pass on any un-favourable movement to its customers, as was evident from the subdued profitability during 9MFY19.

Presence in the highly competitive ceramic tiles industry with fortunes linked to demand from real estate sector: The ceramic tile industry in India is highly competitive. Low technological intensity, easy availability of raw material and limited initial capital investment requirement has attracted large influx of regional and unorganized players. Vitrified tiles are mainly used in the real estate sector in floors, ceiling and walls on indoor as well as outdoor surfaces. Hence, the fortunes of ceramic tile industry are directly linked with the growth and consumption pattern of real estate sector in the country.

Analytical approach: Standalone

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

About the Company
Incorporated in 2009, Sunshine Tiles Company Private Limited (STCPL) is promoted by Mr. Govindbhai Varmora, Mr. Bhudarbhai Varmora and Mr. Jagjivanbhai Varmora and is a part of the Morbi, Gujarat based Sunshine group. STCPL commenced operations from 2009 and is engaged in manufacturing of ceramic floor, wall and vitrified tiles. STCPL’s
manufacturing facility is located at Wankaner near Morbi in Gujarat and had a total installed capacity of 10,000 boxes per day of vitrified tiles, 7,500 boxes per day of floor tiles and 27,000 boxes per day of wall tiles.

Merger of SCCPL with SCTPL:
In January 2018, STCPL merged SCCPL, its majority owned subsidiary with itself pursuant to a scheme of arrangement approved by NCLT with effect from April 1, 2017. SCCPL had set up a greenfield manufacturing capacity for production of large sized vitrified tiles at Morbi, Gujarat. It commenced commercial operations from June 2017 and had an installed capacity of 83,232 metric tonnes per annum (MTPA) as on March 31, 2018.

Brief financials of STCPL are tabulated below:

<table>
<thead>
<tr>
<th>Brief Financials (Rs. crore)</th>
<th>FY17 (A)</th>
<th>FY18 (A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating income</td>
<td>364.96</td>
<td>523.05</td>
</tr>
<tr>
<td>PBILDT</td>
<td>34.20</td>
<td>39.93</td>
</tr>
<tr>
<td>PAT</td>
<td>12.07</td>
<td>6.15</td>
</tr>
<tr>
<td>Overall gearing (times)</td>
<td>0.94</td>
<td>1.88</td>
</tr>
<tr>
<td>Interest coverage (times)</td>
<td>5.05</td>
<td>3.40</td>
</tr>
</tbody>
</table>

A: Audited
Further, during 9MFY19, based on provisional financials, STCPL reported a total operating income of Rs.334.55 crore.

Status of non-cooperation with previous CRA: None

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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**For detailed Rationale Report and subscription information, please contact us at www.careratings.com

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Disclaimer
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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.
**Annexure-1: Details of Instruments/Facilities**

<table>
<thead>
<tr>
<th>Name of the Instrument</th>
<th>Date of Issuance</th>
<th>Coupon Rate</th>
<th>Maturity Date</th>
<th>Size of the Issue (Rs. crore)</th>
<th>Rating assigned along with Rating Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund-based - LT-Cash Credit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>116.00</td>
<td>CARE BBB+; Stable</td>
</tr>
<tr>
<td>Non-fund-based - ST-Bank Guarantees</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>31.52</td>
<td>CARE A2</td>
</tr>
<tr>
<td>Fund-based - LT-Term Loan</td>
<td>-</td>
<td>-</td>
<td>March 2025</td>
<td>76.27</td>
<td>CARE BBB+; Stable</td>
</tr>
<tr>
<td>Fund-based - ST-Bills discounting/ Bills purchasing</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>20.00</td>
<td>CARE A2</td>
</tr>
</tbody>
</table>

**Annexure-2: Rating History of last three years**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Instrument/Bank Facilities</th>
<th>Type</th>
<th>Amount Outstanding (Rs. crore)</th>
<th>Current Ratings</th>
<th>Rating history</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Fund-based - LT-Cash Credit</td>
<td>LT</td>
<td>116.00</td>
<td>CARE BBB+; Stable</td>
<td>1) CARE A-; Stable (16-May-18) 2) CARE A-; Stable (05-Apr-18)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>CARE A2</td>
<td>1) CARE A+; Stable (16-May-18) 2) CARE A+; Stable (05-Apr-18)</td>
</tr>
<tr>
<td>2.</td>
<td>Non-fund-based - ST-Bank Guarantees</td>
<td>ST</td>
<td>31.52</td>
<td>CARE A2</td>
<td>1) CARE A2+; Stable (16-May-18) 2) CARE A2+; Stable (05-Apr-18)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>CARE A2+</td>
<td>1) CARE A2+; Stable (16-May-18) 2) CARE A2+; Stable (05-Apr-18)</td>
</tr>
<tr>
<td>3.</td>
<td>Fund-based - LT-Term Loan</td>
<td>LT</td>
<td>76.27</td>
<td>CARE BBB+; Stable</td>
<td>1) CARE A-; Stable (16-May-18) 2) CARE A-; Stable (05-Apr-18)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>CARE A2</td>
<td>1) CARE A2+; Stable (16-May-18) 2) CARE A2+; Stable (05-Apr-18)</td>
</tr>
<tr>
<td>4.</td>
<td>Fund-based - ST-Bills discounting/ Bills purchasing</td>
<td>ST</td>
<td>20.00</td>
<td>CARE A2</td>
<td>1) CARE A2+; Stable (16-May-18) 2) CARE A2+; Stable (05-Apr-18)</td>
</tr>
</tbody>
</table>
Press Release

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