Rating Rationale

Sorento Granito Pvt. Ltd.

16 Oct 2018

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 17.93 Crores of Sorento Granito Pvt. Ltd..

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based	**15.18**	**Long Term**	**BWR B+ (Pronounced as BWR Single B Plus)** Outlook: Stable
Non Fund Based	**2.75**	**Short Term**	**BWR A4 (Pronounced as BWR A Four)**
Total	**17.93**	**INR Seventeen Crores and Ninety Three Lakhs Only**	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon audited financial results of FY17, provisional results of FY 18, publicly available information and information/clarifications provided by the management.
The rating assigned interalia factors the industry experience of the promoters and locational advantage being in Morbi-Gujarat. The ratings is however constrained by declining trend observed in revenues, high gearing level with deterioration in debt protection matrix and company associated with inherent risk of fluctuations in the raw material and fuel prices affecting the operating margins..
Going forward company's ability to achieve growth in revenues and profits; streamline its financial position and to sustain in highly fragmented industry shall be the key rating sensitivity.

Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoters with established customer and supplier relationship:** The key promoters of SGPL have an average experience of more than 10 years in the same line of business, while the long standing industry experience has helped SGPL to establish customer and supplier base.

- **Location advantage**: SGPL's plant is located in Morbi (Gujarat) which is one of the largest ceramic clusters in India having easy access to raw materials, labour, water and power connection.

Key Rating Weaknesses

- **Moderate scale of operations with low profitability:** The total operating income **(TOI)** decreased and stood moderate at Rs.40.72 crore in FY17 and further declined 31.15 crs in FY18 provisional. PAT stood low **o**n the back of high depreciation and interest costs during FY17.
- **Moderately leveraged capital structure with a deterioration in debt coverage indicators and moderate liquidity position:** The capital structure as marked by overall gearing ratio remained moderately leveraged at 2.18 times as on March 31, 2017 as against 2.09 times as on March 31, 2016, owing to an increase in the total debt level. Furthermore, the debt coverage indicators also deteriorated due to a decrease in cash accruals and an increase in total level of debt as on March 31, 2017. The liquidity position stood moderate as marked by current ratio at 1.40 times as on March 31, 2017 and high utilization of working capital borrowings which stood at 93% for the past 12 months . Operating cycle also stood elongated at 119 days during FY17.
- **Susceptibility of operating margins to fluctuations in the raw material and fuel prices along with presence in fragmented industry with fortunes dependent on the cyclical real estate industry and concentrated customer base:** The prices of primary raw material, i.e. clay and fuel, i.e. Liquefied Natural Gas is market driven and might put pressure on the margins of SGPL. Majority of the demand of tiles comes from the real estate industry which is highly cyclical in nature, while presence of numerous organized and unorganized players makes the industry fragmented. Also, very few customers contribute a major chunk towards the TOI, leading to customer concentration risk.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*

BWR believes the **Sorento Granito Pvt. Ltd.** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Incorporated in 2007, Morbi-based SGPL is engaged in the manufacturing of vitrified tiles..SGPL is promoted by Mr Bhagwandas Tulsiyani along with Mr Hasmukhlal Ubhadiya, Mr Murlibhai Tulsiyani and Mr Narendra Kagthara.SGPL operates with an installed capacity of manufacturing 7,500 boxes of tiles per day and sells its product under the brand name of "Sorento".

Company Financial Performance

The revenue has observed a declining trend over the years. In FY17, the company reported a revenue of Rs 45.82 declined by 15%. Further it declined to 31.15 in provisional 2018.Operating margins have improved from 11.10%(FY16) to 13.5%(FY17) and further to 16.10% in FY18(provisional).The NPM remains low at 0.47% and the company has witnessed a steep decline in profits from 0.61crs to 0.19crs in FY17

Rating History for the last three years

S.No	Instrument /Facility	Current Rating			Rating History		
		Type	Amount (₹ Crs)	Rating	2017	2016	2015
1	**Fund Based**	Long Term	15.18	BWR B+ (Pronounced as BWR Single B Plus) Outlook: Stable	-	-	-
2	**Non Fund Based**	Short Term	2.75	BWR A4 (Pronounced as BWR A Four)	-	-	-
	Total		**17.93**	**₹ Seventeen Crores and Ninety Three Lakhs Only**			

Status of non-cooperation with previous CRA (if applicable)-N.A

Key Financial Indicators

Key Parameters	Units	2017	2016
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	40.72	47.89
EBITDA	₹ Cr	5.50	5.32
PAT	₹ Cr	0.19	0.61
Tangible Net worth	₹ Cr	12.91	12.72
Total Debt/Tangible Net worth	Times	2.18	2.09
Current Ratio	Times	1.42	1.23

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Infrastructure Sector
- Short Term Debt

For any other criteria obtain hyperlinks from website

Analytical Contacts	Media
Sushil Kumar Chitkara *Deputy General Manager-Ratings* analyst@brickworkratings.com	media@brickworkratings.com **Relationship Contact** bd@brickworkratings.com
Phone: 1-860-425-2742	

For print and digital media
The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.
BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 13,22,500 Cr. In addition, BWR has rated over 7000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹62,000 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.