

Rating Rationale

Vicon Ceramic Pvt Ltd

August 31, 2017

Brickwork Ratings assigns rating for the Bank Loan Facilities amounting to Rs. 10.28 Crs of Vicon Ceramic Pvt. Ltd. (VCPL)

Particulars:

Facilities Rated [#]	Amount (Rs. Crs)	Tenure	Rating *
Fund Based	7.68	Long Term	BWR BB+ (Pronounced BWR Double B Plus) (Outlook: Stable)
Cash Credit	6.00		
Term Loan	1.68		
Non-Fund Based	2.60	Short Term	BWR A4+ (Pronounced as BWR A Four Plus)
Bank Guarantee	2.60		
Total	10.28	INR 10.28 Crores (INR Ten Crores and Twenty Eight Lakhs Only)	

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

Rationale/Rating Sensitivities:

BWR has principally relied upon audited financial results of FY17, projected financial statement up to FY 20 , publicly available information and information/clarifications provided by the management.

The assigned rating factors in the strength derived from the company's contract manufacturing agreement with M/s Somany Ceramics Limited (SCL) and SCL's 26% equity stake in the entity. The ratings also takes into account the continuing improvement in PAT margins and locational advantage in the form of easy availability of quality raw material and skilled manpower by virtue of situated in Morbi, Gujarat, which is ceramic hub.

The rating are, however, constrained on account of highly competitive nature of ceramic tile industry and competition from existing/upcoming small players, particularly those centred in and around Morbi. The profitability continues to be susceptible to volatility in prices of natural gas & key raw materials as well as demand from cyclical real estate sector. The rating also factors the clientele concentration risk associated with majority of sales made to SCL; any policy changes shall adversely impact VCPL.



Key Rating Drivers:

Stretched liquidity position of the company coupled with a moderate gearing: The Company has a stretched liquidity majorly on account of accelerated repayments of long term debt by the company clubbed with a high working capital requirement.

Susceptibility of profitability to volatility in prices of raw materials and fuel: Prices of raw material i.e clay and feldspar are market driven and expected to put pressure on margins of tile manufacturers. Another major component is fuel expense in the form of LNG which is required to fire the furnace. The profitability of VCPL would be exposed to volatile LNG prices, mainly on account of its linkages with international demand-supply position of natural gas. Hence VCPL's ability to control its cost structure would be crucial going forward especially in light of a competitive environment.

Customer concentration risk: The Company sells 98% of the production to M/s Somani Ceramics Ltd. and to that much of an extent the performance and policies of SCL would have a substantial impact on the performance of the company. However, the interests of the company are protected to an extent by the 26% holding of SCL.

Location Advantage: The Company is located at one of the largest ceramic clusters in India i.e Morbi, Gujarat. Over 70% of total ceramic tiles production in India comes from Morbi cluster where more than 600 units are engaged in manufacturing of wall tiles, vitrified tiles and other ceramic products. Skilled labour and other infrastructural facilities are available locally.

Analytical Approach: BWR has factored in the projections provided to the lenders. Rating criteria used has been mentioned in the hyperlinks given below for reference.

Rating Outlook: Stable

BWR believes that Vicon Ceramic Pvt Ltd's 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:

Vicon Ceramic Pvt Ltd was incorporated in June 2013 for the purpose of manufacturing of two varieties of tiles; wall tiles and parking tiles. The company commenced its commercial production from March 2014. The installed at its facility located at Morbi, Gujarat, is 54000 MTPA. VCPL is promoted and managed by Mr. Amarshi Detroja along with other directors associated with Somany Ceramic Ltd., a well-established name in ceramic industry. The promoters have a previous experience of over two decades in the ceramic tiles business. Somany Ceramic Limited acquired 26% stake in Vicon Ceramic Pvt Ltd. in January 2014 and currently almost the entire production of VPCL is absorbed by SCL.

Company's Financial Performance:

Key Financial Figures			
Particulars	Unit	FY16	FY17
Operating Income	Rs. Crores	62.84	62.47
EBITDA	Rs. Crores	6.94	6.03
PAT	Rs. Crores	0.61	1.18
Tangible Networth	Rs. Crores	7.19	8.37
TOL :TNW	Times	3.28	2.54
Current Ratio	Times	0.89	0.98

Rating History for the last three years:

Sl. No.	Facility	Current Rating (July 2017)			Rating History		
		Type	Amount (Rs Crs)	Rating	2016	2015	2014
Fund Based							
1.	Cash Credit	Long Term	6.00	BWR BB+	NA	NA	NA
2.	Term Loan		1.68				
Non Fund Based							
1.	Bank Guarantee	Short Term	2.60	BWR A4+	NA	NA	NA
10.28							
(INR Ten Crores and Twenty Eight Lakhs Only)							

Hyperlink/Reference to Applicable Criteria:

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)

Analytical Contacts	Media				
<p data-bbox="386 384 602 415"><u>Sunil Bharadwaj</u></p> <p data-bbox="396 438 592 470"><u>AGM - Ratings</u></p> <p data-bbox="293 554 695 585">analyst@brickworkratings.com</p>	<p data-bbox="922 384 1317 415">media@brickworkratings.com</p> <tr> <td colspan="2" data-bbox="802 438 1435 497" style="text-align: center;">Relationship Contact</td> </tr> <tr> <td colspan="2" data-bbox="802 497 1435 611" style="text-align: center;">bd@brickworkratings.com</td> </tr>	Relationship Contact		bd@brickworkratings.com	
Relationship Contact					
bd@brickworkratings.com					

Phone: 1-860-425-2742

For print and digital media

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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, has also been 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 Nationalized 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, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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