

September 11, 2014

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	4.39	SMERA B+/Stable (Assigned)
Cash Credit	7.00	SMERA B+/Stable (Assigned)
Bank Guarantee	1.75	SMERA A4 (Assigned)

SMERA has assigned ratings of '**SMERA B+**' (read as **SMERA single B plus**) and '**SMERA A4**' (read as **SMERA A four**) to the Rs.13.14 crore bank facilities of Sungloss Ceramic Industries (SCI). The outlook is '**Stable**'. The ratings are constrained by the firm's small operating scale, high leverage and working capital-intensive operations. The ratings consider that the firm's margins are highly susceptible to raw material price volatility. The ratings are also constrained by the firm's exposure to customer concentration and product concentration risks. However, the ratings are supported by the firm's long track record of operations, experienced management and established association with customer (Somany Ceramics).

SCI, established in 1993, is a Morbi-based partnership firm engaged in manufacturing of ceramic tiles and digital print tiles. SCI's small-scale operations are reflected in revenues of Rs.21.91 crore in FY2013-14 (refers to financial year, April 01 to March 31). The firm's leverage (debt-to-capital ratio) is high at 2.34 times (1.68 times excluding unsecured loans from total debt) as on March 31, 2014 on account of working capital-intensive operations and debt-funded capex undertaken for purchase of machinery. SCI's raw material cost as a proportion of sales is high at ~80 per cent; the firm's profit margins are thus highly susceptible to volatility in raw material prices. SCI is exposed to customer and product concentration risks arising from high dependence on sale of ceramic tiles to Somany Ceramics.

SCI benefits from its experienced management. The partners of the firm have around 20 years of experience in the ceramic tiles business. SCI also benefits from its long-standing relationship with Somany Ceramics.

Rating sensitivity factors

- Increase in net profit margins
- Diversification of product profile and clientele

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**Outlook: Stable**

SMERA believes SCI will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues and profit margins by diversifying its clientele and product profile. The outlook may be revised to 'Negative' in case of deterioration in the firm's profit margins or financial risk profile.

About the firm

SCI, established in 1993, is a Morbi-based partnership firm promoted by Mr. Jayantkumar Patel, Mr. Niravkumar Patel and Mr. Rajan Patel. SCI is engaged in manufacturing of ceramic tiles and digital print tiles and employs Indian and Italian manufacturing technology. SCI caters to Somany Ceramics Limited and RAK Ceramic Private Limited.

For FY2013–14, SCI reported profit after tax (PAT) of Rs.0.08 crore on operating income of Rs.21.91 crore, as compared with PAT of Rs.0.04 crore on an operating income of Rs.21.60 crore in FY2012–13. The firm's net worth stood at Rs.4.95 crore as on March 31, 2014, as compared with Rs.3.38 crore a year earlier.

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