

## Press Release

### Renite Vitrified LLP

13 April, 2018

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs.42.25 Crore
<b>Long Term Rating</b>	SMERA BB/Stable (Assigned)
<b>Short Term Rating</b>	SMERA A4+ (Assigned)

\*Refer Annexure for details

### Rating Rationale

SMERA has assigned long term rating of '**SMERA BB**' (read as **SMERA double B**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.42.25 crore bank facilities of Renite Vitrified LLP (RVL). The outlook is '**Stable**'.

Renite Vitrified LLP (RVL) is Morbi based limited liability partnership firm established in 2016. It is engaged in manufacturing of nano, twin charged vitrified, glazed vitrified floor and wall tiles. The firm is promoted by seventeen partners with Mr. Paras D. Kavathiya, Mr. Dhirajlal K. Suran and Mr. Jentilal B. Kavathi as the designated partners handling the day to day operations of the firm.

The firm is also part of the Sunraj Ceramic and Varmora Group which has an established presence of more than fifteen years in the ceramic industry. The manufacturing unit of RVL is located in Morbi (Gujarat) with an installed capacity of 73000 metric tons per annum. The commercial operation of the unit commenced in April, 2017.

### Key rating drivers

#### Strengths:

#### Experienced promoters

The firm benefits from the extensive experience of the seventeen partners who collectively possess more than fifteen years of experience in the ceramic tile industry. The partners have experience through association as Directors in Sunraj Ceramic Group and Varmora group of companies who have an established presence in the ceramic tile industry. The group manufactures vitrified wall and floor tiles under the brand name "Varmora" and caters to the export market.

#### Group company support

The firm benefits from the support of the group company- Varmora Granito Private Limited (VGPL). As RVL sells majorly to VGPL i.e. around 60 percent of its total estimated sales for FY2018, thereby limiting the offtake risk associated with newly established enterprise. The firm has reported net sales of Rs.47.91 crore for FY2018 (11M).

#### Weaknesses:

#### Limited track record of operation

The firm commenced its commercial operations in April, 2017. Hence, the ability of the firm to endure the various business cycles is yet to be demonstrated.

#### Susceptibility of margins to volatility in commodity prices and foreign exchange rate

The prices of the raw material i.e. clay is dependent on the demand and supply scenario in the market. This is likely to have an adverse impact on the margins of the ceramic players. The firm also exports around 10 to 15 percent of its total estimated sales to overseas market including UAE. Hence, the profitability of the

firm is also susceptible to volatility in foreign exchange rate as in the absence of adequate hedging mechanism.

### **Stretched liquidity position**

The operating cycle of the firm is elongated as it maintains high level of inventory to meet timely delivery of customer orders. Further, the firm also provides higher credit period to its customers to build relations leading to stretched working capital cycle. The same is reflected in the stretched liquidity position as the average bank limit utilisation stood at around 98 percent for the last six months ended as on January, 2018.

### **Exposed to high competition in ceramic industry and cyclical nature of end user industry**

The ceramic tile industry in India is highly competitive with presence of several regional and unorganized players. Further, the operations of the firm are also exposed to the cyclical nature of the real estate industry which is the main end-user industry for the ceramic industry.

### **Constitution as a limited liability partnership firm**

The credit risk profile factors in the constitution of RVL as a limited liability partnership firm. There is an inherent risk of withdrawal of the capital which limits its financial flexibility in turn increasing the vulnerability of the capitalization and coverage metrics.

### **Analytical approach:**

SMERA has considered the standalone business and financial risk profile of Renite Vitrified LLP to arrive at this rating.

### **Outlook: Stable**

SMERA believes that RVL will maintain a 'Stable' outlook over the medium term owing to extensive experience of the promoters in the ceramic industry and support from the group company. The outlook may be revised to 'Positive' in case the firm registers significant growth in revenue and profitability while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of steep decline in profitability or deterioration in the capital structure and liquidity position on account of higher than expected working capital borrowing.

### **Applicable Criteria**

- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Application of Financial Ratios and Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

**About the Rated Entity -Key Financials:** Not applicable

**Status of non-cooperation with previous CRA (if applicable):** Not Applicable

**Any other information:** Not Applicable

**Rating History for the last three years:** Not Applicable

### **\*Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	27.33	SMERA BB/Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.25	SMERA A4+
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.67	SMERA BB/Stable

**Note on complexity levels of the rated instrument:**
<https://www.smera.in/criteria-complexity-levels.htm>
**Contacts:**

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 Email: <a href="mailto:suman.chowdhury@smera.in">suman.chowdhury@smera.in</a>	Varsha Bist Manager- Rating Desk Tel: 022-67141160 Email: <a href="mailto:varsha.bist@smera.in">varsha.bist@smera.in</a>
Shashikala Hegde, Senior Rating Analyst, Tel: 022-67141321 Email: <a href="mailto:shashikala.hegde@smera.in">shashikala.hegde@smera.in</a>	

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