

Press Release

Classic Marble Company Private Limited (CMCPL)

May 08, 2017

Rating Upgraded

Total Bank Facilities Rated*	Rs. 200.00 Cr
Long Term Rating	SMERA BBB+/Stable (Upgraded)
Short term Rating	SMERA A2 (Upgraded)

**Refer Annexure for details*

Rating Rationale

SMERA has upgraded the long term rating on the Rs. 200.00 crore bank facilities of Classic Marble Company Private Limited (CMCPL) to **'SMERA BBB+' (read as SMERA triple B plus)** from **'SMERA BBB'** (read as SMERA triple B) and short term rating to **'SMERA A2' (read as SMERA A two)** from **'SMERA A3+' (read as SMERA A three plus)**. The outlook is **'Stable'**. Further, SMERA has withdrawn the rating on the Rs. 28.96 crore term loan as it has been fully repaid as certified by the banker.

The rating upgrade is in view of the consistent improvement in profit margins and coverage indicators. SMERA expects a surge in profit margins in the medium term owing to the company's thrust on high margin products.

CMCPL, a Mumbai based company was incorporated in 2008 to take over the existing businesses of Classic Marble and Marmo Classic (partnership firms under the same management) which was established in 1994. CMCPL is engaged in the processing of rough natural marbles and manufacturing of engineered marbles and quartz.

List of key rating drivers and their detailed description:

Strengths:

Experienced management and established track record of operations: CMCPL has been in operation since 1994 with four manufacturing facilities at Silvassa. The management is led by Mr. Mafatlal Shah and Mr. Papatlal Shah apart from the second generation viz. Mr. Amit M. Shah and Mr. Subodh. P. Shah who possess experience of over two decades in the marble processing industry.

Reputed and diversified clientele: CMCPL has its showrooms at Silvassa, Ahmedabad, Chandigarh, Bhandup and Worli. Further, apart from residential customers, it also caters to contractors and reputed real estate developers such as Hiranandani, Lodha to name a few. In FY2015-16, the top 10 customers contributed only 18.92 per cent of the total revenue with the balance 81.08 per cent coming from other customers. The rating thus factors in the diversified clientele of the company.

Stable growth in revenue with improvement in profitability: The revenue of the company during FY2013-14 to FY2015-16 increased at a CAGR of 7.96 per cent on account of rise in export of artificial marble. The operating income stood at Rs.433.61 cr in FY2016 as against Rs. 395.93 cr in FY2015. For 9MFY2017, the company registered operating income of Rs. 325.00 cr. Further, the company registered healthy improvement in profit margins during the period under study. The EBIDTA margins increased from 13.77 per cent in FY2014-15 to 17.40 per cent in FY2015-16 on account of decrease in raw material cost.

Healthy financial risk profile: CMCPL has a healthy financial risk profile marked by interest coverage ratio of 2.54 times (PY: 2.03 times) and debt service coverage ratio (DSCR) of 1.36 times (PY:1.29 times) in FY2015-16. The tangible net worth remains healthy at Rs. 115.18 cr as on March 31, 2016 as compared to Rs. 101.55 cr as on March 31, 2015. The gearing improved to 2.48 times as on March 31, 2016 as against 2.81 times as on March 31, 2015.

Weakness

Exposure to forex fluctuation risk: Most of the raw material (rough slabs of natural marble) is imported from Turkey, Italy followed by Iran. The other major raw material is Polyester Resin, used to manufacture engineered marbles. The entire requirement of Resin is imported from Polychem, a UAE-based company. Around 72 per cent of total purchases are through imports. Thus, CMCPL is exposed to fluctuations in foreign exchange rates. However, the company hedges its forex transactions.

Working capital intensive operations: The business is working capital intensive with GCA days of 247 in FY2015-16 on account of high inventory of 195 days for the same period. The company purchases material against LC and then converts the same to Buyers' Credit.

Since CMCPL deals with real estate developers and contractors, receivables are stretched. Besides, the debtors outstanding for more than six months are to the tune of Rs.22.25 cr as on March 31, 2016 (around 33 per cent of total debtors) of which Rs.6.83 cr are doubtful.

Further, the average cash credit utilisation for the period July 2016 to December 2016 stood at 65.63 per cent.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the company.

Applicable Criteria

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

Outlook - Stable

SMERA believes that CMCPL will maintain a Stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers more than expected growth in revenue while maintaining profitability or significant improvement in the financial risk profile. Conversely the outlook may be revised to 'Negative' in

case of steep decline in revenues, profitability or high working capital requirements leading to deterioration in the financial risk profile.

About the Rated Entity

CMCPL was incorporated in 2008 to takeover the existing businesses of Classic Marble and Marmo Classic (partnership firms under the same management), established in 1994. The company is engaged in the processing of rough natural marbles, manufacturing of engineered marbles and quartz at Silvassa. The products include natural marble, engineered marble, Quartz, granite marble to name a few. CMCPL has 17 gang saws and thus has a license to import 60,000 MT of rough marble. Of the rough natural marbles imported, average recovery is 170 Sq Ft per tone.

For FY2015-16, CMCPL reported profit after tax (PAT) of Rs.17.27 cr on operating income of Rs.433.61 cr as compared with PAT of Rs. 17.46 cr on operating income of Rs. 395.93 cr for FY2014-15. The Networth for FY2015-16 is Rs. 115.18 cr as compared to Rs. 101.55 cr for FY2014-15.

Status of non-cooperation with previous CRA: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long Term	130.00	SMERA BBB+/Stable (Upgraded)	Dec 02, 2015	SMERA BBB/Stable (Assigned)	-	-	-	-
Term Loan I	Long Term	28.96	SMERA BBB+/Stable (Withdrawn)	Dec 02, 2015	SMERA BBB/Stable (Assigned)	-	-	-	-
Term Loan II	Long Term	7.50	SMERA BBB+/Stable (Upgraded)	Dec 02, 2015	SMERA BBB/Stable (Assigned)	-	-	-	-
Bank Guarantee	Short Term	30.00	SMERA A2 (Upgraded)	Dec 02, 2015	SMERA A3+ (Assigned)	-	-	-	-
Proposed fund/Non Fund based facility	Long Term	2.50	SMERA BBB+/Stable (Upgraded)	Dec 02, 2015	SMERA BBB/Stable/A3+ (Assigned)	-	-	-	-
Proposed fund/Non Fund based facility	Long Term	1.04	SMERA BBB+/Stable (Withdrawn)	Dec 02, 2015	SMERA BBB/Stable/A3+ (Assigned)	-	-	-	-

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

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings
Cash Credit	NA	NA	NA	130.00	SMERA BBB+/Stable (Upgraded)
Term Loan I	NA	NA	March 2018	28.96	SMERA BBB+/Stable (Withdrawn)
Term Loan II	NA	NA	NA	7.50	SMERA BBB+/Stable (Upgraded)
Bank Guarantee	NA	NA	NA	30.00	SMERA A2 (Upgraded)
Proposed fund based/Non fund based facility	NA	NA	NA	2.50	SMERA BBB+/Stable (Upgraded)
Proposed fund based/Non fund based facility	NA	NA	NA	1.04	SMERA BBB+/Stable (Withdrawn)

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

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ABOUT SMERA

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