

Press Release

Umberto Ceramics International Private Limited

September 06, 2019



Rating Upgraded & Reaffirmed

| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs. 87.00 Cr. |
| Long Term Rating | ACUITE BB+ / Outlook: Stable (Upgraded from ACUITE BB/ Stable) |
| Short Term Rating | ACUITE A4+ (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB+** (read as ACUITE double B plus) from '**ACUITE BB**' (read as ACUITE double B) and reaffirmed the short-term rating of '**ACUITE A4+** (read as ACUITE A four plus) on the Rs. 87.00 crore bank facilities of Umberto Ceramics International Private Limited (UCIPL). The outlook is '**Stable**'.

The rating upgrade reflects established track record of the company reflecting continued growth in revenues, while maintaining operating margins. The revenues increased to Rs. 79.02 crore in FY2019 from Rs. 65.21 crore in FY2018. The operating margins of the company remained healthy at a range of 29 per cent to 31 per cent. The operating margins stood at 29.35 per cent for FY2019 as against 29.70 per cent in the previous year. Profit after tax (PAT) margin improved to 6.22 per cent in FY2019 from 0.46 per cent in FY2018. Further, the working capital cycle of the company has slightly improved even though a bit on a higher side. The Gross Current Asset days stood at 251 for FY2019 as against 311 in the previous year. The decrease in GCA mainly pertains to lower inventory levels in FY2019 as against in FY2018. Further, PAT is expected to improve on account of interest cost saving due to shift to foreign currency denominated borrowings, which will lead to improvement in overall profitability. The upgrade also reflects company's healthy financial risk profile marked by moderate net worth, low gearing and healthy debt protection metrics.

Gujarat-based, Umberto Ceramics International Private Limited (UCIPL) was incorporated in the year 2011 and is engaged in manufacturing of porcelain tableware. However, the company commenced its operations from 2014. The directors of the company are Mr. Sunil Malesha, Mr. Surendhranath Peruma Reddy and Mr. Bernard Gilbert Massaad. The unit has an installed capacity of producing 14 million pieces per annum with ~80 percent capacity utilization. UCIPL exports ~67 per cent of its production to Europe, USA, Australia and Middle East. UCIPL is an owner of brand 'Ariane'.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of UCIPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced Management

The management of the company has more than three decades of experience in the ceramic industry. The Managing Director of the company, Mr. Sunil Malesha, has worked for over a decade with R.A.K Ceramics India. The senior management team is ably supported by a strong line of mid-level managers. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers. Over the years, the company has developed long standing relationships with its reputed clients. Its major customers include Marriott, Hyatt, Star group of hotels, Radisson hotels, Taj hotels, Oberoi and Holiday Inn, to name a few with no major concentration in revenues. On the back of the stable and repeat orders by the key customers, the revenues have seen a compound annual growth rate (CAGR) of about 8 per cent over the past four years through FY2019 at Rs. 79.02 crore in FY2019. Acuité believes that UCIPL will sustain its existing business profile on the back of experienced management and reputed clientele.

- **Moderate financial risk profile**

UCIPL's financial risk profile is moderate marked by a moderate networth, low gearing and above average debt protection metrics. The company's networth stood at around Rs. 63.02 crore as on March 31, 2019 as against Rs. 58.11 crore in the previous year. The networth includes quasi equity of Rs. 22.98 crore. The gearing (debt-equity) levels stood at 0.92 times as on 31 March, 2019 as against 1.13 times as on 31 March, 2018. The total debt of Rs. 57.68 crore as on 31 March, 2019 comprises of Rs. 27.94 crore of working capital borrowings, Rs. 26.74 crore of long term debt and Rs. 3.00 crore of unsecured loans. The coverage indicators stood average marked by Interest Coverage Ratio (ICR) of 2.98 times for FY2019 as against 2.27 times for FY2018. Further, Debt to EBITDA stood moderate at 2.49 times in FY2019 as against 3.37 times in FY2018. Total outside liabilities to Tangible Net worth (TOL/TNW) has improved to 1.29 times as on 31 March 2019 as against 1.62 times as on 31 March 2018. The improvement in TOL/TNW is majorly on account of improved profitability of the company resulting in improved tangible net worth in FY2019. Acuité believes that the financial risk profile of the company is expected to remain moderate backed by moderate net cash accruals and in absence of any major debt funded capex in near to medium term.

Weaknesses

- **Working capital intensive operations**

The company's operations are working capital intensive in nature, however slightly improved, reflected by its gross current asset (GCA) days of 251 days for FY2019 as against 311 days in the previous year. This is mainly on account of lower inventory as on 31 March 2019. The company imports a significant portion of its raw material requirements and maintains inventory of 250 days (PY: 333 days) in order to cater to spot orders from customers. Further, the company has more than 2000 types of products and hence has to keep different variety of products. UCIPL's working capital limits over the last six months period ended July 2019 was utilized at an average of ~81 per cent. Acuité expects the operations of the company to remain working capital intensive on account of the high inventory levels to be maintained by the company on account of various types of products.

- **Presence in a highly competitive and fragmented tableware industry**

UCIPL is one of the known and reputed manufacturer of fine porcelain tableware in India, but it faces intense competition from other Chinese and local players in the market. The industry is fragmented and competitive with presence of large number of unorganized players. However, currently, UCIPL is one of the leading players in HORECA (Hotel, Restaurant and Catering) industry.

Liquidity Position

UCIPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 15.86 crore for FY2019 against Rs. 11.64 crore maturing debt obligations for the same period. The cash accruals of the company are estimated to increase and remain in the range of around Rs. 20.00 crore to Rs. 25.00 crore during 2020-22 against debt obligation of ~Rs. 11.50 crore to Rs. 2.00 crore for the same period. The cash accruals are expected to improve on account of interest cost savings. The company has working capital intensive operations as marked by GCA days of 251 days for FY2019. This is mainly due to high inventory maintained by the company. The company maintains unencumbered cash and bank balances of Rs. 0.04 crore as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals to its maturing debt obligation.

Outlook: Stable

Acuité believes that UCIPL will continue to benefit over the medium term due to its established market position and moderate financial risk profile. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure through equity infusion. Conversely, the outlook may be revised to 'Negative', if the company generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, or further stretch in its working capital cycle thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 79.02 | 65.21 | 68.67 |
| EBITDA | Rs. Cr. | 23.19 | 19.37 | 21.65 |
| PAT | Rs. Cr. | 4.91 | 0.30 | 3.55 |
| EBITDA Margin | (%) | 29.35 | 29.70 | 31.53 |
| PAT Margin | (%) | 6.22 | 0.46 | 5.17 |
| ROCE | (%) | 9.71 | 6.78 | 8.46 |
| Total Debt/Tangible Net Worth | Times | 0.92 | 1.13 | 1.26 |
| PBDIT/Interest | Times | 2.98 | 2.27 | 3.00 |
| Total Debt/PBDIT | Times | 2.49 | 3.37 | 3.29 |
| Gross Current Assets (Days) | Days | 251 | 311 | 274 |

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|--|--|
| 07-Jun-2019 | Cash Credit | Long Term | 24.00 | ACUITE BB/ Stable (Indicative) |
| | Term Loan I | Long Term | 20.71 | ACUITE BB/ Stable (Indicative) |
| | Term Loan II | Long Term | 15.31 | ACUITE BB/ Stable (Indicative) |
| | Proposed long term loan | Long Term | 16.23 | ACUITE BB/ Stable (Indicative) |
| | Letter of credit | Short Term | 5.00 | ACUITE A4+ (Indicative) |
| | Bank Guarantee | Short Term | 5.75 | ACUITE A4+ (Indicative) |
| 23-Mar-2018 | Cash Credit | Long Term | 24.00 (Enhanced from Rs. 20.00 crore) | ACUITE BB/ Stable (Upgraded from B+/ Stable) |
| | Term Loan I | Long Term | 20.71 | ACUITE BB/ Stable (Upgraded from B+/ Stable) |
| | Term Loan II | Long Term | 15.31 | ACUITE BB/ Stable (Upgraded from B+/ Stable) |
| | Proposed long term loan | Long Term | 16.23 | ACUITE BB/ Stable (Upgraded from B+/ Stable) |
| | Letter of credit | Short Term | 5.00 | ACUITE A4+ (Upgraded from ACUITE A4) |
| | Bank Guarantee | Short Term | 5.75 | ACUITE A4+ (Upgraded from ACUITE A4) |

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|-------------|-------------------------|------------|-------|--------------------------------|
| 25-Jan-2017 | Cash Credit | Long Term | 20.00 | ACUITE B+/ Stable (Reaffirmed) |
| | Term Loan I | Long Term | 29.50 | ACUITE B+/ Stable (Reaffirmed) |
| | Term Loan II | Long Term | 19.50 | ACUITE B+/ Stable (Reaffirmed) |
| | Proposed long term loan | Long Term | 2.25 | ACUITE B+/ Stable (Assigned) |
| | Proposed Cash Credit | Long Term | 5.00 | ACUITE B+/ Stable (Assigned) |
| | Letter of credit | Short Term | 5.00 | ACUITE A4 (Assigned) |
| | Bank Guarantee | Short Term | 5.75 | ACUITE A4 (Assigned) |
| 09-Jan-2017 | Cash Credit | Long Term | 20.00 | ACUITE B+/ Stable (Assigned) |
| | Term Loan I | Long Term | 17.50 | ACUITE B+/ Stable (Assigned) |
| | Term Loan II | Long Term | 12.50 | ACUITE B+/ Stable (Assigned) |

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|-------------------------|------------------|----------------|----------------|-----------------------------|--|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 6.00^ | ACUITE BB+/ Stable (Upgraded from ACUITE BB/ Stable) |
| Term Loan I | Not Applicable | Not Applicable | Not Applicable | 9.78 | ACUITE BB+/ Stable (Upgraded from ACUITE BB/ Stable) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 12.50# | ACUITE BB+/ Stable (Upgraded from ACUITE BB/ Stable) |
| Term Loan II | Not Applicable | Not Applicable | Not Applicable | 14.62## | ACUITE BB+/ Stable (Upgraded from ACUITE BB/ Stable) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 10.50^^ | ACUITE BB+/ Stable (Upgraded from ACUITE BB/ Stable) |
| Proposed long term loan | Not Applicable | Not Applicable | Not Applicable | 21.10 | ACUITE BB+/ Stable (Upgraded from ACUITE BB/ Stable) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 2.50^## | ACUITE A4+ (Reaffirmed) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 3.00^## | ACUITE A4+ (Reaffirmed) |
| Letter of credit | Not Applicable | Not Applicable | Not Applicable | 7.00## | ACUITE A4+ (Reaffirmed) |

[^] Includes sublimit of EPC/PCFC/EBR/FBD to the extent of Rs. 6.00 crore.

[#] Includes sublimit of Forward contract for hedging forex exposure to the extent of Rs. 0.95 crore.

^{##} Includes sublimit of Foreign Currency Term Loan (FCTL) to the extent of Rs. 18.50 crore.

^{^^} Interchangeable with EPC/PCFC/FBD/FBN/STL to the extent of Rs. 10.50 crore.

^{^^^} Includes sublimit of Credit Exposure Limit (CEL) to the extent of Rs. 1.63 crore and Letter of credit (LC) to the extent of Rs. 2.50 crore.

^{^^^^} Two-way interchangeability with letter of credit (ILC/FLC) to the extent of Rs. 3.00 crore.

^{###} Includes sublimit of Bank Guarantee (BG) to the extent of Rs. 7.00 crore.

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About Acuité Ratings & Research:

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