

Press Release

Umberto Ceramics International Private Limited

September 26, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 87.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Positive (Reaffirmed & Outlook Revised)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and 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 has been revised to '**Positive**' from '**Stable**'.

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% of its production to Europe, USA, Australia and Middle East. UCIPL is an owner of brand 'Ariane'.

Revision of Outlook: Positive

Acuité has revised the outlook to 'Positive' from 'Stable' on account of continuous improvement in revenue while maintaining operating margins. Acuité expects a significant improvement in financial risk profile of the company on account of significant portion of repayment of term loan and conversion of quasi equity of Rs. 19.55 crore into equity by FY2020. Further, Acuité also expected improvement in net margins on account of reduction in interest cost on account of replacing the existing debt with foreign currency denominated borrowings and significant repayment of term loans. The rating may be upgraded in case the company registers higher-than-expected revenues while maintaining its margins, improvement in financial risk profile and/or working capital management. Conversely, the outlook may be revised to 'Stable' in case the company registers lower-than-expected revenue, decline margins or any significant deterioration in working capital of the company.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the 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 network, low gearing and above average debt protection metrics. The company's network stood at around Rs. 63.02 crore as on March 31, 2019 as against Rs. 58.11 crore in the previous year. The network 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. Acuite 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. Acuite expects the operations of the company to remain working capital intensive on account of the high inventory levels to be maintained by the company to cater to spot orders/extended credit period offered to acquire new customers/expand its sales to new geography and keeping variety 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.

Rating Sensitivities

- Substantial improvement in scale of operation (~Rs.90.00-100.00 crore), while maintaining profitability margin of around 30-31 per cent over the medium term.
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

Material Covenants

- Penal interest will be charged in case of breach of any two of the four parameters vis-à-vis values as mentioned in the sanction note as follows-

Parameters	Benchmark for annual testing of financial covenants
Gross DSCR	1.02
Interest Coverage Ratio	2.96
FACR	2.78
Debt/EBITDA	2.22

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. Acuite 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.

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
06-Sept-2019	Cash Credit	Long Term	6.00	ACUITE BB+/ Stable (Upgraded from ACUITE BB/ Stable)
	Term Loan I	Long Term	9.78	ACUITE BB+/ Stable (Upgraded from ACUITE BB/ Stable)
	Cash Credit	Long Term	12.50	ACUITE BB+/ Stable (Upgraded from ACUITE BB/ Stable)
	Term Loan II	Long Term	14.62	ACUITE BB+/ Stable (Upgraded from ACUITE BB/ Stable)
	Cash Credit	Long Term	10.50	ACUITE BB+/ Stable (Upgraded from ACUITE BB/ Stable)
	Proposed long term loan	Long Term	21.10	ACUITE BB+/ Stable (Upgraded from ACUITE BB/ Stable)
	Bank Guarantee	Short Term	2.50	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	3.00	ACUITE A4+ (Reaffirmed)
	Letter of credit	Short Term	7.00	ACUITE A4+ (Reaffirmed)
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)
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+/ Positive (Reaffirmed & Outlook revised from 'Stable')
Term Loan I	Not Applicable	Not Applicable	Not Applicable	9.78	ACUITE BB+/ Positive (Reaffirmed & Outlook revised from 'Stable')
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.50#	ACUITE BB+/ Positive (Reaffirmed & Outlook revised from 'Stable')

Term Loan II	Not Applicable	Not Applicable	Not Applicable	14.62##	ACUITE BB+/ Positive (Reaffirmed & Outlook revised from 'Stable')
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.50^^	ACUITE BB+/ Positive (Reaffirmed & Outlook revised from 'Stable')
Proposed long term loan	Not Applicable	Not Applicable	Not Applicable	21.10	ACUITE BB+/ Positive (Reaffirmed & Outlook revised from '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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