

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 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 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. 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.

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 (Enhanced from Rs. 20.00 crore) | 24.00 | 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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