

## Press Release

### Umberto Ceramics International Private Limited

December 28, 2020

### Rating Downgraded and Reaffirmed Outlook Revised



<b>Total Bank Facilities Rated*</b>	Rs.87.00 Cr.*
<b>Long Term Rating</b>	ACUITE BB/Negative (Downgraded; Outlook revised from Positive)
<b>Short Term Rating</b>	ACUITE A4+ (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and has 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 revised to '**Negative**' from '**Positive**'.

### Key Reason for Revision in Rating and Outlook

The downward revision in the rating and revision in outlook reflects the ongoing challenges faced by the company in maintaining adequate liquidity as against its near term debt repayment obligations. The operations of the company have been severely impacted on account of the ongoing Covid-19 crisis since it caters majorly to the HORECA segment and more than 60 percent of its revenue is derived from exports. The impact can be seen in terms of significant decline in the operational cash flows for the group in the current year. The company is currently engaging with its lenders for a one-time restructuring (OTR) of debt in line with the latest RBI framework on Covid-19 asset resolution. While arriving at the current rating action, Acuité has also relied on the dispensation provided by the regulators (Circular No.: SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 160).

### About Company

UCIPL is a Gujarat based company incorporated in the year 2011. However, the company commenced its operations from 2014. The company is engaged in manufacturing of porcelain tableware. The directors of the company are Mr. Sunil Malesha, Mr. Surendhranath Peruma Reddy and Mr. Bernard Gilbert Massaad. UCIPL exports ~60% 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 profile of UCIPL to arrive at the 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 company has developed long standing relationships with its reputed customers include Marriott, Hyatt, Star group of hotels, Radisson hotels, Taj hotels, Oberoi and Holiday Inn, to name a few.

Acuité believes that UCIPL will sustain its existing business profile on the back of experienced management and reputed clientele.

#### • **Moderate financial risk profile**

The company's financial risk profile is marked by healthy net worth, low gearing (debt-equity) and moderate debt protection metrics. The tangible net worth of the company stood at Rs.66.01 crore (includes quasi equity of Rs.22.98 crore) as on 31 March, 2020 as against Rs.63.02 crore (includes quasi equity of Rs.22.98 crore) as on 31 March, 2019. The total debt of Rs.50.81 crore as on 31 March, 2020 consist of long term debt of Rs.19.10 crore, unsecured loans from directors/promoters of Rs.3.00 crore and short term debt of Rs.28.71 crore. The gearing (debt-equity) stood low at 0.77 times as on 31 March, 2020 as compared to 0.92 times as on 31 March, 2019. The Interest Coverage Ratio stood comfortable at 3.93 times for FY2020 as against 2.98 times for FY2019. Total Outside Liabilities/Total Net Worth (TOL/TNW) stood at 1.05 times as on 31 March, 2020 as against 1.29 times as on 31 March, 2019. Net Cash Accruals to Total Debt (NCA/TD) also stood at 0.28 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 1.08 times in FY2020 as against 1.22 times in FY2019. However, the financial risk profile of the company will experience an impact because of the net loss to be incurred by the company on account of Covid-19 impact.

Acuite believes that the financial risk profile of the company will continue to remain moderate with minor moderation over the medium term on account of Covid-19 impact, conservative financial policy and absence of any major debt-funded capital expenditure.

#### **Weaknesses**

##### • **Intensive working capital cycle**

The company has an intensive working capital cycle marked by Gross Current Assets (GCA) days of 276 days in FY2020 and 251 days in FY2019. The receivable days stood at 41 days in FY2020 as against 49 days in FY2019. The inventory days stood at 279 days in FY2020 as against 250 days in FY2019. The average bank limit utilization stood high at ~34.00 percent for the past 7 months ending October 2020. Acuite believes that efficient working capital management will be crucial to the company in order to maintain a healthy risk profile.

##### • **Presence in a highly competitive 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**

- Improving the scale of operations and profitability.
- Any elongation of the working capital cycle

#### **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: Stretched**

The company has a stretched liquidity marked by inadequate net cash accruals against maturing debt repayment obligations. The net cash accruals for the company are expected to be around Rs.5.00 crore in FY2021 against debt repayment obligation of ~Rs.9.45 crore. The working capital management of the firm is intensive marked by GCA days of 276 days in FY2020 as against 251 days in FY2019. The company has an average bank limit utilization of around at ~34 percent during the last 7 months period ended in October 2020. The company has maintained unencumbered cash and bank balances of Rs.0.08 crore as on March 31, 2020. The current ratio of the firm stood moderate at 1.07 times as on March 31, 2020. Acuite believes that the liquidity of MRL is likely to remain stretched over the medium term.

### Outlook: Negative

Acuite believes that the UC IPL's credit profile will be under pressure on account of significant moderation in its operating performance leading to cash flow stress over the near term. The rating may be downgraded in case continued moderation in liquidity profile and its profitability margins, leading to deterioration in debt protection indicators. Conversely, the outlook may be revised to 'Stable' if the company is able to show significant improvement in revenues and profitability while efficiently managing its working capital cycle.

### About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	73.06	79.02
PAT	Rs. Cr.	2.99	4.91
PAT Margin	(%)	4.10	6.22
Total Debt/Tangible Net Worth	Times	0.77	0.92
PBDIT/Interest	Times	3.93	2.98

### 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-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
26-Sept-2019	Cash Credit	Long Term	6.00	ACUITE BB+/ Positive (Reaffirmed and Outlook revised)
	Term Loan I	Long Term	9.78	ACUITE BB+/ Positive (Reaffirmed and Outlook revised)
	Cash Credit	Long Term	12.50	ACUITE BB+/ Positive (Reaffirmed and Outlook revised)
	Term Loan II	Long Term	14.62	ACUITE BB+/ Positive (Reaffirmed and Outlook revised)
	Cash Credit	Long Term	10.50	ACUITE BB+/ Positive (Reaffirmed and Outlook revised)
	Proposed long term loan	Long Term	21.10	ACUITE BB+/ Positive (Reaffirmed and Outlook revised)
	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)
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 (Indicative)
	Term Loan I	Long Term	20.71	ACUITE BB (Indicative)
	Term Loan II	Long Term	15.31	ACUITE BB (Indicative)
	Proposed long term loan	Long Term	16.23	ACUITE BB (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)

**\*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 <sup>^</sup>	ACUITE BB/Negative (Downgraded; Outlook revised)
Term Loan I	Not Available	Not Applicable	Not Available	9.35	ACUITE BB/Negative (Downgraded; Outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.50 <sup>#</sup>	ACUITE BB/Negative (Downgraded; Outlook revised)
Term Loan II	Not Available	Not Applicable	Not Available	12.75 <sup>##</sup>	ACUITE BB/Negative (Downgraded; Outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.50 <sup>^^</sup>	ACUITE BB/Negative (Downgraded; Outlook revised)
Proposed long term loan	Not Available	Not Applicable	Not Available	23.40	ACUITE BB/Negative (Downgraded; Outlook revised)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50 <sup>^^^</sup>	ACUITE A4+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00 <sup>^^^^</sup>	ACUITE A4+ (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	7.00 <sup>###</sup>	ACUITE A4+ (Reaffirmed)

<sup>^</sup> Includes sublimit of EPC/PCFC/EBR/FBD to the extent of Rs.6.00 crore.

<sup>#</sup> Includes sublimit of Forward contract for hedging forex exposure to the extent of Rs.0.95 crore.

<sup>##</sup> Includes sublimit of Foreign Currency Term Loan (FCTL) to the extent of Rs.18.50 crore.

<sup>^^</sup> Interchangeable with EPC/PCFC/FBD/FBN/STL to the extent of Rs.10.50 crore.

<sup>^^^</sup> 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.

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

<sup>###</sup> Includes sublimit of Bank Guarantee (BG) to the extent of Rs.7.00 crore.

**Contacts**

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Tel: 022 49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Vishal Kotian Analyst – Rating Operations Tel: 022 49294064 <a href="mailto:vishal.kotian@acuite.in">vishal.kotian@acuite.in</a>	Varsha Bist Senior Manager - Rating Desk Tel: 022 49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

**About Acuite Ratings & Research:**

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