



Press Release
UMBERTO CERAMICS INTERNATIONAL PRIVATE LIMITED
June 21, 2023
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	74.50	ACUITE BBB- Stable Upgraded	-
Bank Loan Ratings	12.50	-	ACUITE A3+ Upgraded
Total Outstanding Quantum (Rs. Cr)	87.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short-term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**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**'.

Rationale for the Upgrade

The rating upgrade is on account of a significant improvement in the operating and financial performance of UCIPL, marked by an improvement in operating income, stable operating margins, and a healthy financial risk profile. The revenue of the company stood at Rs. 141.99 crore in FY2023 (prov.) against Rs. 88.83 crore in FY2022. The growth is on account of both improved realisations and volumes. Going ahead, UCIPL is expected to register augmented growth in revenues and profitability on the back of capacity expansion and the addition of trading segments in the near to medium term. The Company is currently operating at 90 percent capacity.

The financial risk profile of UCIPL improved with healthy gearing levels, net worth, and comfortable debt-protection metrics. The gearing levels improved to 0.37 times in FY2023 (prov.) against 0.88 times in FY2022.

Going forward, UCIPL's ability to further improve its scale of operations and profitability margins on the back of capacity addition and venture into the trading segment while maintaining its financial risk profile and working capital cycle will remain a key monitorable.

About the 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 ~40 percent of its production to Europe, USA, Australia and Middle East. UCIPL is an owner of brand 'Ariane'.

Analytical Approach

Acuite 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, which include Marriott, Hyatt, Star Group of Hotels, Radisson Hotels, Taj Hotels, Oberoi Hotels, and Holiday Inn, to name a few. Acuite believes that UC IPL will sustain its existing business profile on the back of experienced management and a reputed clientele.

Improved Operating Performance

The operating income of UC IPL has registered a growth of 60 percent to Rs. 141.99 crore in FY2023 (prov.) against Rs. 88.83 crore in FY2022. The growth in revenues is on account of both improved realisations and volumes. The operating margins stood at 22.85 percent in FY2023 (prov.) against 29 percent in FY2022. The decline is primarily on account of the one-time write-off of scrap inventory and long-standing outstanding debts of Rs. 8.74 crore. The adjusted operating margin would otherwise be 28.83 percent. The company is also introducing a trading segment by the second half of FY2024, wherein it will introduce glassware, cutlery items, and stoneware products under the brand name 'Ariane'. It is also undertaking capacity expansion, which would increase its capacity by approximately 48 percent. The production capacity would increase to 1.88 crore pieces per year from 1.27 crore pieces per year. The cost of capex is approximately Rs. 16 crore, and the same would be funded partly by debt and partly by internal accruals. The capacity addition is expected to become operational by early FY2025. The funding tie-up is pending as of this date. Acuite believes the commencement of trading segment and capacity addition is expected to positively augment the growth in revenues and margins in the near to medium term.

Healthy Financial Risk Profile

The financial risk profile of the company improved with healthy gearing levels, a healthy net worth, and comfortable debt-protection metrics. The net-worth of the company stood at Rs. 80.35 crore in FY2023 (prov.) against Rs. 60.56 crore in FY2022. The improvement in net worth is on account of the accretion of profits to the reserves. The net worth also includes quasi equity of Rs. 21.00 crore subordinated to bank loans.

The total debt of Rs. 29.91 crore as of March 2023 (Prov.) consists of Rs. 8.93 crore of long-term debt, Rs. 12.96 crore of short-term debt, and a USL of Rs. 8.02 crore. The gearing levels improved to 0.37 times in FY2023 (prov.) against 0.88 times in FY2022. The adjusted gearing stood at 0.27 times for FY2023 (prov.) and 0.78 times in FY2022. The TOL/TNW improved to 0.59 times in FY2023 (prov.) against 1.18 times in FY2022. The coverage ratios remained comfortable, with ICR at 7.30 times for FY2023 (prov.) against 5.41 times for FY2022 and DSCR at 2.77 times for FY2023 (prov.) against 3.86 times for FY2022. During the year, UC IPL part-prepaid its term loans, amounting to an additional Rs. 9.79 crore against a maturing debt obligation of Rs. 7.51 crore during FY 2023, through internal sources. The NCA/TD stood at 0.96 times in FY2023 (prov.) against 0.41 times in FY2022.

Acuite believes, that the financial risk profile will remain healthy over the medium term on account of continued accretion to reserves and surplus and the sustenance of margins, ensuring healthy debt protection metrics.

Weaknesses

Working Capital Management

The working capital operations of the company eased in FY2023 (Prov.), though they remained intensive, with GCA days of 170 days in FY2023 (prov.) against 278 days in FY2022. The inventory days stood at 150 days in FY2023 (prov.) against 276 days in FY2022. The company has to maintain an inventory of finished, semi-finished, and raw materials at all times. The improvement in inventory days is led by better churning during the year on account of healthy sales traction. The debtor days stood at 46 days in FY2023 (prov.) against 66 days in FY2022. The credit provided by the company ranges between 7 and 60 days from the date of

billing, with partial advance receipts from a few customers. UC IPL makes advance payments to some suppliers; however, it generally gets a credit period of 30–90 days from others. The creditor days in FY2023 (Prov.) stood at 19 days against 8 days in FY2022.

Acuite believes that the ability of the company to improve its scale of operations without any significant elongations in the working capital cycle will be a key monitorable.

Presence in a highly competitive tableware industry

UC IPL is a growing manufacturer of fine porcelain tableware that is strengthening its ground in India but also faces intense competition from imported products from the European and American markets. However, UC IPL is able to overcome the competition as it is one of the major domestic manufacturers of fine porcelain tableware. and the strict quality and consistency controls over the output ensure an edge over the imported tableware.

Rating Sensitivities

- Steady growth in revenues and profitability margins ensuring a healthy financial risk and liquidity profile.
- Significant elongations in working capital cycle.

Material covenants

None

Liquidity Position Adequate

UC IPL's liquidity position is adequate marked by healthy net cash accruals against maturing debt obligations. The company generated cash accruals of Rs 28.68 crore in FY 2023 (prov.) and Rs 21.71 crore in FY 2022 against the maturing debt obligations of Rs 7.51 crore and 2.08 crore, respectively. During the year, UC IPL part-prepaid its term loans, amounting to an additional Rs. 9.79 crore over and above the maturing debt obligation of Rs. 7.51 crore during FY 2023, through internal cash accruals. The working capital operations of UC IPL are intensive with GCA days of 170 days in FY2023(Prov.) and 278 days in FY2022. The combined average fund-based bank limit utilisation stood at 6.24% for the last 12 months ending March 2023 and 57.9% for non-fund based facilities during the same period. The investments (FD) of Rs. 1.55 crore as per FY2023 (Prov.) are lien marked as margin money for bank guarantees and maintained a cash and bank balance of Rs. 0.10 crore as of March 31, 2023 (Prov.). Going ahead, the net cash accruals are expected to be in the range of Rs.34.13 and Rs.42.33 crore against maturing debt obligations of Rs.6.03 and Rs.2.15 crore in FY24 and FY25 respectively. Acuite believes that, going forward, UC IPL will maintain adequate liquidity position over the medium term on the back of expected high net cash accruals.

Outlook:Stable

Acuite believes that UC IPL will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management and relationship with customers and suppliers. The outlook may be revised to 'Positive' in case the firm registers substantial and sustained growth in revenues from the current levels while maintaining its operating margins and healthy financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital management, thereby impacting its financial risk profile, particularly its liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	141.99	88.83
PAT	Rs. Cr.	19.79	10.56
PAT Margin	(%)	13.94	11.88
Total Debt/Tangible Net Worth	Times	0.37	0.88
PBDIT/Interest	Times	7.30	5.41

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>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Mar 2022	Bank Guarantee	Short Term	2.50	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	9.35	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Cash Credit	Long Term	12.50	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Cash Credit	Long Term	6.00	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Proposed Long Term Loan	Long Term	23.40	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Cash Credit	Long Term	10.50	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Bank Guarantee	Short Term	3.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	7.00	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	12.75	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
28 Dec 2020	Proposed Long Term Loan	Long Term	23.40	ACUITE BB Stable (Downgraded from ACUITE BB+ Positive)
	Bank Guarantee	Short Term	2.50	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	3.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	10.50	ACUITE BB Stable (Downgraded from ACUITE BB+ Positive)
	Cash Credit	Long Term	12.50	ACUITE BB Stable (Downgraded from ACUITE BB+ Positive)
	Term Loan	Long Term	9.35	ACUITE BB Stable (Downgraded from ACUITE BB+ Positive)
	Letter of Credit	Short Term	7.00	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	12.75	ACUITE BB Stable (Downgraded from ACUITE BB+ Positive)
	Cash Credit	Long Term	6.00	ACUITE BB Stable (Downgraded from ACUITE BB+ Positive)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	2.50	ACUITE A3+ Upgraded
Bank of Baroda	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A3+ Upgraded
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.50	ACUITE BBB- Stable Upgraded
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.50	ACUITE BBB- Stable Upgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE BBB- Stable Upgraded
Kotak Mahindra Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE A3+ Upgraded
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	41.26	ACUITE BBB- Stable Upgraded
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.24	ACUITE BBB- Stable Upgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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