

Press Release

Flora Marmo Industries Private Limited

July 30, 2019

Rating Downgraded and Assigned



Total Bank Facilities Rated*	Rs. 97.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Downgraded from ACUITE BB)
Short Term Rating	ACUITE A4 (Downgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE BB**' (read as **ACUITE double B**) and short-term rating to '**ACUITE A4**' (read as **ACUITE A four**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 54.20 crore bank facilities of FLORA MARMO INDUSTRIES PRIVATE LIMITED (FMPL). The outlook is '**Stable**'.

Further, Acuite has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to 42.80 crore bank facilities of FMPL. The outlook is '**Stable**'.

The rating revision is in view stretched liquidity position. Further, the rating was constraint on account of incremental exposure to real estate for past few years with no revenue realisation from the same and high repayment obligation. Also, the company has extended funds to its group company's in the form of loans and advances.

FMPL was established in 2002 as a partnership firm under the name of Mahavir Industries by Mr. Amit Jalan and Mr. Troy Caeiro and later in 2007 was converted as Flora Marmo Industries Private Limited (FMPL). The company is engaged in the processing and trading of marbles, tiles and variety of stones specializing in Italian marble. The company has their processing unit at Silavassa (Dadra & Nagar Haveli) with capacities of 2 lakh square ft. per month.

Analytical Approach

Acuite has considered the standalone business and financial profiles of FMPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

FMPL has established track record of operations of two decades. The promoters, Mr. Amit Jalan and Mr. Troy Caeiro have over two decades of experience in processing of marbles. The company is engaged in processing of imported marbles specializing in Italian marble. FMPL imports the marble from countries such as Turkey, Italy, Oman, Spain and caters to real estate players in Mumbai, Bangalore, Delhi and Pune among others. Promoters' long experience in this industry has helped them carve a niche for themselves in the marble industry.

Acuite believes that the promoters experience has helped the company to maintain long standing relations with its customers and suppliers thus ensuring steady supply.

• Healthy profitability

The company's operating margins stood healthy at 14.96 percent in FY2019 (Provisional) as against 12.94 percent in FY2018 and 12.40 percent in FY2017. Further, the company reported Profit after Tax (PAT) margins of 4.88 percent in FY2019 (Provisional) as against 2.17 percent in FY2018 and 3.11 percent in FY2017. The company has been able to fetch healthy margins due to its established market position and superior quality of imported marbles. However, the company has a uneven revenue trend. The operating income of Rs.76.28 crore in FY2019 (Provisional) as against Rs.65.99 crore in FY2018 and Rs.83.13 crore in FY2017. The decline in revenue for FY2018 was on account of

high GST rate of 28 percent imposed on marble which was considered as a premium product. However, later, the GST rate was reduced to 18 percent which led to growth in revenues for FY2019 (Provisional).

Acuité believes that the growth in revenue and sustenance of its profitability margins are expected to support the overall growth of the company.

Weaknesses

• Extension of funds in loans and advances

FMPL has a tangible net worth of Rs.43.14 crore as on 31 March, 2019 (Provisional). The company has extended loans and advances worth Rs.37.66 crore as investment in group companies as on 31 March, 2019 (Provisional). The adjusted tangible net worth stood at Rs.5.48 crore as on 31 March, 2019 (Provisional). The adjusted gearing stood at 18.13 times as on 31 March, 2019 (Provisional).

• Average financial risk profile

The financial risk profile of the company is average marked by tangible net worth of Rs.43.14 crore as on 31 March, 2019 (Provisional) as against Rs.39.73 crore as on 31 March, 2018. The gearing (debt-equity) stood moderate at 2.30 times as on March 31, 2019 (Provisional) against 3.00 times as on March 31, 2018. The total debt outstanding of Rs.99.35 crore as on 31 March, 2019 (Provisional) consists of working capital borrowing of Rs.7.11 crore, term loan of Rs.50.47 crore and interest bearing unsecured loans of Rs.41.76 crore. The leverage and coverage indicators continue to remain moderate marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR). ICR stood at 1.81 times and DSCR stood at 1.10 times for FY2019 (Provisional). The total outside liabilities to tangible net worth stood at 3.10 times as on 31 March, 2019 (Provisional) as against 4.05 times as on 31 March, 2018.

Acuité believes that the company's financial risk profile will not improve over near to medium term due to the ongoing debt funded capex.

• Elongated working capital operations

The company's operations are working capital intensive marked by high Gross Current Asset (GCA) of 476 days in FY2019 (Provisional) as compared to 752 days in FY2018. The collection period improved to 81 days in FY2019 (Provisional) compared to 139 days in FY2018 on account of healthy realisation of debtors. The inventory holding stood at 295 days in FY2019 (Provisional) and 578 days in FY2018. The company generally keeps high inventory levels to make available various grades of stones/marbles with different quality for its customers. Further, the working capital facility of the company remains 85 percent utilised for last six months ending June 2019.

Acuité believes that an efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Liquidity

The company has stretched liquidity marked by low net cash accruals as compared to its maturing debt obligations. The company generated cash accruals of Rs.2.5-4.6 crore during the last three years through 2017-19 (Prov), while the maturing debt obligations were in the range of Rs.2.5-4.9 crore over the same period. The cash accruals are estimated to remain around Rs.2.5-5.0 crore during 2019-21, while its repayment obligations are estimated to be around Rs.23.00 crore. The company maintains cash and bank balances of Rs.0.62 crore as on March 31, 2019 (Prov). The current ratio stood healthy at 2.45 times as on March 31, 2019 (Prov). Acuité believes that the liquidity of the company is likely to remain stretched over the medium term on account of low cash accruals and high debt repayment obligations.

Outlook: Stable

Acuité believes that FMPL will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management and established market presence. The outlook may be revised to 'Positive' in case the company registers significant growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or further elongation in working capital cycle leading to deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	76.28	65.99	83.13
EBITDA	Rs. Cr.	11.41	8.54	10.31
PAT	Rs. Cr.	3.42	1.43	2.59
EBITDA Margin	(%)	14.96	12.94	12.40
PAT Margin	(%)	4.48	2.17	3.11
ROCE	(%)	8.07	5.22	6.52
Total Debt/Tangible Net Worth	Times	2.30	3.00	2.44
PBDIT/Interest	Times	1.81	1.83	1.90
Total Debt/PBDIT	Times	7.43	13.01	9.90
Gross Current Assets (Days)	Days	585	752	521

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>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
27-Mar-2019	Proposed Bank Guarantee	Short Term	0.50	ACUITE A4+ (Downgraded and Indicative)
	Proposed Cash Credit	Long Term	22.00	ACUITE BB (Downgraded and Indicative)
	Proposed Bank Facility	Short Term	58.50	ACUITE A4+ (Downgraded and Indicative)
	Proposed Letter of Credit	Short Term	16.00	ACUITE A4+ (Downgraded and Indicative)
04-Jan-2018	Proposed Bank Guarantee	Short Term	0.50	ACUITE A3 (Assigned)
	Proposed Cash Credit	Long Term	22.00	ACUITE BBB-/Stable (Assigned)
	Proposed Bank Facility	Short Term	58.50	ACUITE A3 (Assigned)
	Proposed Letter of Credit	Short Term	16.00	ACUITE A3 (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
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4 (Downgraded from ACUITE A4+)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BB- / Stable (Downgraded from ACUITE BB)
Term loans	Not Applicable	Not Applicable	Not Applicable	42.80	ACUITE BB- / Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A4 (Downgraded from ACUITE A4+)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	15.70	ACUITE BB- / Stable (Downgraded from ACUITE BB)

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About Acuité Ratings & Research:

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