

Press Release

Dovel Ceramics
D-U-N-S® Number: 67-548-4283

March 06, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 6.87 Cr. (Enhanced from Rs.5.22 Cr.)
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B**' (**read as ACUITE B**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 5.22 crore bank facilities and assigned long-term rating of '**ACUITE B**' (**read as ACUITE B**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 1.65 crore bank facilities of Dovel Ceramics (DC). The outlook is 'Stable'.

Reaffirmation of the rating reflects modest scale of operations, and revenues in line with the expectations. The rating also factors in promoters experience in the ceramic industry. However, the ratings are constrained by below-average financial risk profile and working capital intensive operations.

Dovel Ceramics (DC) was established in 2016 as a partnership concern promoted by Mr. Pankajbhai Mavjibhai Jetpариya, Mr. Rajeshbhai Mavjibhai Jetpариya along with ten other partners. DC has setup a manufacturing facility in Rajkot district of Gujarat with a manufacturing capacity of 5400 tonnes per annum; primarily it manufactures ceramic sanitary ware products such as washbasins, closets, urinals, sinks among others. The commercial operations of the firm have started during FY2018. The firm is into trading of ceramic sanitary ware products such as washbasins, closets, urinals, sinks among others which have wide usage for commercial as well as domestic buildings.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of DC to arrive at the rating

Key Rating Drivers

Strengths

- **Adequate experience of promoters in ceramic industry**

The key promoters, Mr. Pankajbhai Mavjibhai Jetpариya, Mr. Rajeshbhai Mavjibhai Jetpариya along with other ten partners, have extensive experience in the ceramic tiles industry vide their association with other entities in similar business line. The firm also benefits from the established marketing and distribution network of its associate concerns. Further the manufacturing facility of the firm is located in the ceramic tiles manufacturing hub of Rajkot (Gujarat), which is one of the largest ceramic clusters in India and majority of sanitary ware production in India comes from this cluster which enables the firm to procure quality raw materials at competitive price and allows saving on the transportation cost, fuel and labour. FY2018, being first year of operations, the firm reported operating income of Rs.3.64 Crs with a net loss of Rs. 0.46 crore. For 9MFY2019, the firm has reported revenues of Rs.5.03 crores. Acuité believes that promoters' strong understanding of the local market dynamics, and healthy relations with customers and suppliers should continue to support the ramp-up in operations over the medium term.

Weaknesses

- **Below average financial risk profile:**

DC's financial risk profile is below average marked by high total outside liabilities to total net worth (TOL/TNW), high gearing (debt-to-equity) and moderate debt protection metrics. The DC's TOL/TNW

and gearing are high at 2.39 and 2.76 times in FY2018 and modest networth of Rs.2.59 crores as of March 31, 2018. Its operating margin is 23.55% in FY2018. The DC's debt protection metrics are moderate: with interest coverage ratio (ICR) of 2.03 times and net cash accruals to total debt of 0.07 times for FY2018. Improvement of the revenues and profitability are the key rating sensitivity factors over the near term for improvement of the financial risk profile.

• Working capital intensive operations

Firm's operations are highly working capital intensive as marked by high Gross Current Assets (GCA) of 374 days as on March 31, 2018. They are expected to improve marginally, however they are expected above 200 days owing to higher receivable period of about 4 months from the traders, higher inventory for no stock out position and varieties. As a result, its working capital limits though moderate have been highly utilised at about 97 percent for six months through January 2019. Acuité believes that the operation of DC continues to be working capital intensive due to the industry nature, and increasing scale of operations.

• Limited track record of operations and intense competition

Being in the nascent stage (operations commenced from May 2017) and reported revenue of Rs.3.64 Crs and for 9MFY2019 firm reported Rs.5.00 Crs and the revenue estimated at Rs 7.00 crore in FY2019 represents modest scale of operations. Further ramp up of scale operations to remain key rating sensitivity factor. The sanitaryware industry is highly fragmented with competition from both the organised and the unorganised segments. There are a large number of players in the unorganised segment, with most based in Gujarat, who operate with low-cost structures, thereby creating pricing pressures. Additionally firm also face competition from low-cost Chinese imports. The profitability of the firm remains vulnerable to fluctuations in raw material and gas prices. Growth prospects of the sanitary ware segments are linked to the macro-economic scenario in general and the real estate industry in particular, thus exposing the firm to demand cyclical.

Liquidity

DC has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.0.44 crores in FY2018; cash accruals of DC are estimated to remain around Rs.1.45 to 2.00 crore during 2019-21, while its repayment obligations are estimated to be Rs.0.50-0.60 crores over the medium term. The firm's operations are highly working capital intensive as marked by Gross Current Assets (GCA) of 374 days in FY 2018. This has led to high reliance on working capital borrowings which were utilised at 97 percent during the last 6-month period ended January 2018. The current ratio of the DC stood at 1.60 times as on March 31, 2018. Acuité believes that the liquidity is expected to be at similar levels in absence of any significant capex plans.

Outlook: Stable

Acuité believes that the outlook on Dovel Ceramics rated facilities will remain 'Stable' over the medium term on account of experienced management. The outlook maybe revised to 'Positive' in case of higher than expected revenues and net cash accruals. However, the outlook maybe revised to 'Negative' in case of any stretch in its working capital management leading to deterioration of financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)
Operating Income	Rs. Cr.	3.64
EBITDA	Rs. Cr.	0.86
PAT	Rs. Cr.	-0.46
EBITDA Margin	(%)	23.55
PAT Margin	(%)	-12.67
ROCE	(%)	-0.74
Total Debt/Tangible Net Worth	Times	2.46
PBDIT/Interest	Times	2.03
Total Debt/PBDIT	Times	7.32
Gross Current Assets (Days)	Days	374

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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
02-Jun-2018	Term Loan	Long Term	4.00	ACUITE B / Stable (Assigned)
	Cash Credit	Long Term	1.00	ACUITE B / Stable (Assigned)
	Bank Guarantee	Short Term	0.22	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
Term Loans	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE B / Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	1.10	ACUITE B / Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.22	ACUITE A4 (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE B / Stable (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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