

Press Release

Stonemen Crafts India Private Limited

February 07, 2020

Rating Upgraded



Total Bank Facilities Rated*	Rs.20.00 Cr.
Long Term Rating	ACUITE A-/Outlook: Stable (Upgraded from BBB+/Stable)
Long Term Rating	ACUITE A2+ (Upgraded from A2)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE A-**' (read as **ACUITE A minus**) from '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short-term rating to '**ACUITE A2+**' (read as **ACUITE A two plus**) from '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.20.00 crore bank facilities of STONEMEN CRAFTS INDIA PRIVATE LIMITED (SCPL). The outlook is '**Stable**'.

The upgrade follows the improvement in SCPL's business and financial risk profile as demonstrated by stable growth in business operations and moderate improvement in profitability of the company. The operating income of the company has improved to Rs.138.13 crore in FY2019 as against Rs.125.89 crore in FY2018. Further the operating margin has also improved to 21.96 percent in FY2019 as against 17.24 percent in FY2018 on account better realization from its products aided by larger mix of sales towards value added products. Acuite expects the financial risk profile of the company to be favorably impacted from the healthy cash accruals so generated from the improvement in the profitability levels.

Agra based, Stonemen Crafts India Private Limited (SCPL) was incorporated in 1995 and is promoted Mr. Rajat Asthana and Mr. Shishir Asthana. The company is engaged in the business of manufacturing of stone handicrafts using high-quality alabaster, granite, marble, sandstone, slate, soapstone, quartzite and other varieties of stone. Some of the products offered by the company are Photo Frame, stone candle stands, bedroom lamp shade, decorative mirror frame, decorative pot and kitchen décor & bathroom décor, marble décor with the combination of metal & wooden articles. Operations of SCPL are almost 100 percent export oriented with their clientele constituting reputed names like Target Stores, William Sonoma and John Lewis amongst others. The company exports its products to America, Europe, Singapore, Hong-Kong, and Canada to name a few.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established track record of Operations and experienced management

The promoters of SCPL have been associated with the business since its inception which gives them more than two decades of experience in the manufacturing of stone handicrafts. Further, company has an operational track record of more than two decades, which has helped them establish strong international market presence by having association with big retail chains and departmental stores like Target Stores, William Sonoma and John Lewis to name a few. The extensive experience of the promoters is also reflected through its healthy revenue growth. The revenues of the company grew at a compounded annual growth rate of 15.6 per cent over the last four years through FY 2019.

Acuite believes that the promoters' experience and healthy relations with its customers and suppliers will continue to benefit company over the medium term.

• Healthy financial risk profile

SCPL has healthy financial risk profile marked by healthy net worth, healthy debt protection metrics and low gearing. The net worth of the company has sequentially improved to Rs.56.03 crore as on 31 March, 2019 as against Rs.38.70 crore as on 31 March, 2018 on account of healthy accretion to reserves, the latter

is a result of healthy operating margins.

The company has followed a conservative financial policy in the past, the same is also reflected through its gearing levels. The gearing level (debt-equity) stood stable at 0.30 times as on 31 March, 2019 as against 0.36 times as on 31 March, 2018. The gearing of the company is expected to remain low over the medium term on account of absence of any debt funded capex plans and modest incremental working capital requirements, which is likely to be completely funded by the cash accruals of the company. The total debt of Rs.16.53 crore as on 31 March, 2019 consists of long term debt of Rs.4.47 crore and working capital borrowings of Rs.12.06 crore. Debt to EBITDA stood at 0.54 times in FY2019 as against 0.64 times in FY2018

Operating income of the company has improved by 9.72 per cent in FY2019 over FY2018, and the operating margin has also improved to 21.96 per cent in FY2019 as against 17.24 per cent in FY2018, leading to improvement in the coverage indicators. Interest coverage ratio (ICR) remains healthy at 18.64 times in FY2019 as against 11.62 times in FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 1.30 times in FY2019 and 1.02 times in FY2018.

Acuite believes that the financial risk profile of the company is expected to remain moderate backed by average net cash accruals and in absence of any major debt funded capex in near to medium term.

Weaknesses

• Working capital intensive nature of operations

Operations of SCPL are working capital intensive marked by Gross Current Assets (GCA) of 141 days in FY2019 as against 125 days in the previous year. This is majority on the account of high amount of deposits with government authorities. Further, inventory holding period stood at 32 days in FY2019 as against 45 days in the previous year and debtors' collection period of 34 days in FY2019 as against 40 days in the previous year. Current ratio stood moderate at 1.40 times as on 31 March, 2019 as against 1.10 times as on 31 March, 2018.

• Customer concentration risk and exposure to economic cycles

SCPL is exposed to customer concentration risk as revenue from top five customers of the company constitute more than 60 percent of the total revenue. However, the same is mitigated to a certain extent on account of long standing and healthy relations with these customers. Further company even exposed to change in economic conditions of the countries to which they are supplying.

Key rating Sensitivity Factors

- High customer concentration
- Improvement in operating income.

Material Covenants

Not Applicable

Liquidity Position: Strong

The company has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. SCPL generated cash accruals of Rs.21.55 crore in FY2019 against debt obligations of Rs.1.50 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.23.29 crore to Rs.25.93 crore during FY2020-22 against repayment obligations in the range of Rs.1.00 crore to Rs.1.50 crore for the same period. The average bank limit utilization for the last six months ended November 2019 remained ~78.15 percent. The company maintains unencumbered cash and bank balances of Rs.7.54 crore as on 31 March 2019. The current ratio stands at 1.39 times as on 31 March, 2019.

Acuite believes that the liquidity of the company is likely to remain healthy over the medium term on account of healthy cash accruals against no major debt repayments over the medium term.

Outlook: Stable

Acuite believes that SCPL will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management, established market presence and healthy financial risk profile. 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 deterioration in its working capital management leading to deterioration in its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	138.13	125.89
PAT	Rs. Cr.	17.23	10.02
PAT Margin	(%)	12.48	7.96
Total Debt/Tangible Net Worth	Times	0.30	0.36
PBDIT/Interest	Times	18.64	11.62

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.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
13-Dec-2018	Term Loans	Long Term	4.00	ACUITE BBB+/Stable (Assigned)
	Overdraft	Long Term	5.00	ACUITE BBB+/Stable (Assigned)
	PC/PCFC	Short Term	11.00	ACUITE A2 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loans	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A-/Stable (Upgraded)
Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A-/Stable (Upgraded)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A2+ (Upgraded)

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About Acuite Ratings & Research:

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