

Press Release

Adison Granito Private Limited

January 06, 2020

Rating Downgraded



| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs. 99.40 Cr. |
| Long Term Rating | ACUITE B-/ Outlook: Stable (Downgraded from ACUITE B+) |
| Short Term Rating | ACUITE A4 (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE B-**' (read as **ACUITE B minus**) from '**ACUITE B+**' (read as **ACUITE B plus**) and reaffirmed short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 99.40 crore bank facilities of ADISON GRANITO PRIVATE LIMITED (AGPL). The outlook is '**Stable**'.

The rating downgrade reflects AGPL's working capital intensive nature of operations marked by high gross current asset days (GCA) of 1102 days for FY2019 due to high debtor and inventory days of 208 days and 1040 days respectively as on 31 March, 2019. The company was in its first year of operations and registered a loss of Rs. 24.99 Cr. Any further deterioration in profitability margins or working capital management on account of lack of scale up of operations will be a key rating sensitivity factor.

AGPL incorporated in January, 2016 by Mr. Ashokkumar A. Patel and Mr. Bharatbhai Vasdadia is engaged in manufacture of Double Charge Vitrified Tiles (DCVT). The manufacturing facility is located at Sabarkantha (Gujarat). The production started from July, 2018 with an installed capacity of 1,09,646 MTPA. AGPL caters to residential buildings, large commercial building including mall, hotel and hospital, among others.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced promoters and locational advantage

The promoters of AGPL have more than two decades of experience in the ceramic tile industry due to their association with different tiles manufacturing companies. The promoters of AGPL have been associated with various ceramic tiles manufacturing and trading companies, thereby establishing a healthy distribution and marketing network in the ceramic tiles industry. Thus, AGPL benefits and leverage from this established distribution and marketing network. The manufacturing facility of AGPL is located in Himmatnagar (Gujarat) which enables the company to procure raw materials from Gujarat and Rajasthan easily. Also, the coal powder used for hot air dryer is sourced from local suppliers.

Acuité believes that AGPL will benefit from experience of promoters in ceramic tile industry and location of its manufacturing facility in the tile hub, which will give easy access to raw material.

Weaknesses

• Nascent stage of operations

AGPL started its operations from July, 2018 and registered revenues of Rs.16.03 crore for FY2019. Acuité believes that the ability of the company to scale up its operations with optimum utilisation of its manufacturing capacity and generate adequate net cash accruals in order to repay its debt obligation will be key rating sensitivity.

• Working capital intensive nature of operations

The company's operations are working capital intensive in nature, reflected by its gross current asset (GCA) days of 1102 days for FY2019. AGPL's working capital limits over the last six months period ended September 2019 was fully utilized. Acuite expects the operations of the company to remain working capital intensive on account of the high inventory levels maintained by the company.

• Presence in highly competitive ceramic tile industry.

The ceramic tile industry in India is highly competitive. Low entry barriers, easy availability of raw material and limited initial capital investment requirement has attracted large regional and unorganised players. AGPL faces direct competition from the established players who have better brand visibility. Sale of ceramic tiles is also linked to demand from real estate sector, which is cyclical in nature.

Rating Sensitivities

- Substantial improvement in scale of operations.
- Improvement in profitability margins.

Liquidity Position: Stretched

AGPL has stretched liquidity marked by weak net cash accruals to current maturities of long term debt obligations. The firm generated cash accruals of Rs. -9.37 crores in FY2019, while its repayment obligations are Rs. 9.88 crores in FY2019. The firm's operations are highly working capital intensive as marked by Gross Current Assets (GCA) of 1102 days in FY2019. This has led to high reliance on working capital borrowings which were utilised at 100 percent during the last 6 month period ended September 2019. The current ratio of AGPL stood at 0.85 times as on March 31, 2019.

Outlook: Stable

Acuite believes that the outlook on AGPL will remain 'Stable' over the medium term on the back of experienced promoters. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues and profitability over the medium term. Conversely, the outlook may be revised to 'Negative' in case of deterioration in financial risk profile, working capital cycle or decline in the operating income.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 16.03 | - |
| PAT | Rs. Cr. | -24.99 | - |
| PAT Margin | (%) | -155.87 | - |
| Total Debt/Tangible Net Worth | Times | 8.29 | 1.15 |
| PBDIT/Interest | Times | 0.62 | - |

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 |
|-------------|-------------------------------|------------|----------------|------------------------------|
| 14-Jan-2019 | Term Loan | Long Term | 33.00 | ACUITE B+/ Stable (Assigned) |
| | Cash Credit | Long Term | 15.00 | ACUITE B+/ Stable (Assigned) |
| | Bank Guarantee | Short Term | 2.00 | ACUITE A4 (Assigned) |
| | Term Loan | Long Term | 23.50 | ACUITE B+/ Stable (Assigned) |
| | Cash Credit | Long Term | 4.60 | ACUITE B+/ Stable (Assigned) |
| | Bank Guarantee | Short Term | 1.90 | ACUITE A4 (Assigned) |
| | Term Loan | Long Term | 12.00 | ACUITE B+/ Stable (Assigned) |
| | Cash Credit | Long Term | 5.40 | ACUITE B+/ Stable (Assigned) |
| | Bank Guarantee | Short Term | 2.00 | ACUITE A4 (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 |
|------------------------|------------------|----------------|----------------|-----------------------------|--|
| Term loans | Not Applicable | Not Applicable | Not Applicable | 33.00 | ACUITE B-/ Stable (Downgraded from ACUITE B+/Stable) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 15.00 | ACUITE B-/ Stable (Downgraded from ACUITE B+/Stable) |
| Bank guarantee | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE A4 (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 23.50 | ACUITE B-/ Stable (Downgraded from ACUITE B+/Stable) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 4.60 | ACUITE B-/ Stable (Downgraded from ACUITE B+/Stable) |
| Bank guarantee | Not Applicable | Not Applicable | Not Applicable | 1.90 | ACUITE A4 (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 12.00 | ACUITE B-/ Stable (Downgraded from ACUITE B+/Stable) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 5.40 | ACUITE B-/ Stable (Downgraded from ACUITE B+/Stable) |

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| Bank guarantee | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE A4 (Reaffirmed) |
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Contacts

| Analytical | Rating Desk |
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| Vinayak Nayak Vice President – Rating Operations Tel: 022-49294071 vinayak.nayak@acuite.in Pravin Mule Analyst - Rating Operations Tel: 022-49294063 pravin.mule@acuite.in | Varsha Bist Senior Manager - Rating Desk Tel: 022-49294021 rating.desk@acuite.in |

About Acuité Ratings & Research:

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