

Press Release

Opaque Ceramics Private Limited

September 13, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 17.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.17.00 crore bank facilities of OPAQUE CERAMICS PRIVATE LIMITED (OCPL). The outlook is '**Stable**'.

Himmatnagar-based, Opaque Ceramics Private Limited (OCPL) was incorporated in 1994 by Mr. Mahesh Vohra. OCPL is engaged in manufacturing of zirconium silicate, which is used in the ceramic and vitrified tiles industry for whitening and glazing tiles and is headed by Mr. Atit Vora, Mr. Nishant Vora and Ms. Kalpana Vora. The company's manufacturing unit is located in Himmatnagar, Gujarat with an annual installed capacity of 18,000 Tons per annum.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the OCPL to arrive at this rating

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The promoters of OCPL, Mr. Atit M. Vohra, Mr. Nishant M. Vora and Ms. Kalpana M. Vora, have extensive experience in the aforementioned industry. Further, having two decades of operational track record has enabled the company to maintain healthy relations with its customers and suppliers. The extensive experience of the promoters is also reflected through its healthy revenue growth rate. The revenues of the company have grown at a compounded annual growth rate (CAGR) of ~42 per cent to Rs.107.1 crore over the last three years through FY2019. Acuité believes that the promoters' experience and healthy relations with its customers and suppliers will continue to benefit OCPL over the medium term.

- **Moderate financial risk profile**

OCPL has moderate financial risk profile marked by moderate net worth, healthy debt protection metrics and low gearing. The net worth of the company has sequentially improved to Rs.23.89 crore as on 31 March, 2019 (Provisional) as against Rs.9.21 crore as on 31 March, 2017 on account of healthy accretion to reserves, the latter is a result of moderate 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 0.49 times as on 31 March, 2019 (Provisional) as against 0.49 times as on 31 March, 2018 (Debt to EBITDA stood at 1.19 times in FY2019 (Provisional) as against 0.66 times in FY2018). 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.11.62 crore as on 31 March, 2019 (Provisional) consists of long term debt of Rs.0.20 crore, unsecured loans of Rs.1.20 crore and working capital borrowings of Rs.10.21 crore.

Operating income of the company have reduced by 15.28 per cent in FY2019 (Provisional) over FY2018, and the operating margins have also reduced to 8.36 per cent in FY2019 (Provisional) as against 11.02 per cent in FY2018, leading to downfall in the coverage indicators. However, the interest

coverage ratio still remains healthy and stood at 6.35 times in FY2019 (Provisional) as against 17.52 times in FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.53 times in FY2019 (Provisional) and 1.06 times in FY2018.

Acuité 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.

- **Efficient working capital management**

OCPL's working capital cycle is efficiently managed as is reflected by Gross Current Asset (GCA) of 71 days in FY2019 (Provisional) as compared to 127 days in FY2018. This is on account of debtors' collection period of 30-45 days and inventory holding period of around 30 days. On the other hand, the OCPL gets a credit period of around 30 days from its suppliers. The same is also reflected through unutilised bank lines. OCPL's working capital lines had credit balances for the last six-month period ended June 2019. Further, current ratio of the company stood moderate at 1.87 times as on 31 March, 2019 (Provisional).

Weaknesses

- **Decline in scale of operations and profitability on account of increasing competitive pressures**

The revenue of the company has declined at 15.28 per cent in FY2019 (Provisional) over FY2018. The revenue stood at Rs.107.14 crore in FY2019 (Provisional) as against Rs.126.46 crore in the previous year. The decline in revenues are majorly on the account of reduction in the demand of the products in the market. The operating margins of the company declined to 8.36 per cent in FY2019 (Provisional) from 11.02 per cent in FY2018. Further, the company faces customer concentration risk as ~70 per cent of the revenue comes from only two customers. Acuité believes that improvement in operating performance of the company will be key rating sensitivity as it is majorly affected by the fierce competition from other brands in the market.

- **Susceptibility of operating margin to volatility in raw material prices**

The price of raw material for OCPL, zirconium sand, is volatile in nature. Any fluctuation in the prices of zirconium sand may impact the margins of the company. Moreover, the company is also exposed to risk associated with change in exchange rates, as 95 per cent of the raw material is being imported by the company.

Liquidity Position:

The company has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. OCPL generated cash accruals of Rs.6.17 crore in FY2019 (Provisional) against debt obligations of Rs.0.05 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.6.78 crore to Rs.7.68 crore during FY2020-22 against repayment obligations of Rs.0.05 crore for the same period. The company's working capital operations are efficient marked by gross current asset (GCA) days of 71 days in FY2019 (Provisional). The company maintains unencumbered cash and bank balances of Rs.0.02 crore as on 31 March, 2019 (Provisional). The current ratio stood at 1.87 times as on 31 March, 2019 (Provisional). 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

Acuité believes OCPL will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management and its efficient working capital management. The outlook may be revised to 'Positive' in case the company registers sustained growth in revenues from the current levels, while maintaining its operating margins. 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.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	107.14	126.46	61.44
EBITDA	Rs. Cr.	8.95	13.94	5.24
PAT	Rs. Cr.	5.16	9.01	3.56
EBITDA Margin	(%)	8.36	11.02	8.53
PAT Margin	(%)	4.81	7.13	5.79
ROCE	(%)	27.68	64.55	41.25
Total Debt/Tangible Net Worth	Times	0.49	0.49	0.46
PBDIT/Interest	Times	6.35	17.52	20.90
Total Debt/PBDIT	Times	1.19	0.66	0.79
Gross Current Assets (Days)	Days	71	127	127

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

CRISIL, vide its press release dated July 24, 2019 had denoted the rating of Opaque Ceramics Private Limited as 'CRISIL BB+/Stable/CRISIL A4+ (ISSUER NOT COOPERATING)' on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00*	ACUITE BBB- / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	14.50	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3 (Assigned)

Cash credit is sub limit of Letter of credit

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About Acuité Ratings & Research:

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