

Press Release

Ceramax Granito Private Limited

June 22, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.56.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.56.00 Cr. bank facilities of Ceramax Granito Private Limited (CGPL). The outlook is '**Stable**'.

Rationale for assignment of ratings

The rating assignment draws comfort from the experience of the management, stable business risk profile, expansion of the product line and, moderate working capital management and financial risk profile. These strengths are partially offset by the intense competition faced in the industry and vulnerability to cyclical in end-user industry.

About the Company

Incorporated in 2016, Ceramax Granito Private Limited (CGPL) is a Bikaner, Rajasthan based entity engaged in the business of manufacturing Ceramic Vitrified Tiles. With a focus in the domestic market, it sells its products in Northern India and states like Punjab, Haryana, Rajasthan, Gujarat, Uttar Pradesh, Uttarakhand, Himachal Pradesh and Bihar to name a few.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

CGPL was incorporated in 2016 by Mr. Sidharth Gupta along with others. The company is engaged in manufacturing of Ceramic Vitrified Tiles. The promoters along with key managerial personnel have experience of over three decades in the aforementioned industry.

Acuité believes that the company will benefit from its experienced management, which helps the company to maintain long-standing relations with its customers and suppliers.

- **Stable business risk profile supported by reputed clientele and own brand**

While the entity was incorporated in 2016 and with full commercial operations from 2019, CGPL's business risk profile is supported by its stable scale of operations as reflected in its operating income of Rs.68.75 Cr. in FY2021 (Provisional) as against Rs.63.93 Cr. in FY2020 and Rs.61.63 Cr. in FY2019.

This is further supported by improving profitability indicators on Y-O-Y basis on the back of improving realisations as reflected in the Operating (EBITDA) margin of 20.68 percent in FY2021 (Provisional) as against 17.34 percent in FY2020 and 12.44 percent in FY2019, and the PAT margin of 12.16 percent in FY2021 (Provisional) as against 4.57 percent in FY2020 and (2.22) percent in FY2019.

CGPL caters to several reputed players of the industry such as Kajaria, Somany, Prism and Orient Bell to name a few. At the same time, it also sells products under its own product line – Ceramax, which contributes ~20 percent to its operating income.

- **Moderate Working capital management**

CGPL's working capital management has been improving on Y-O-Y basis and the requirements remain moderate as reflected in its improving of Gross Current Assets (GCA) to 124 days in FY2021 (Provisional) as against 172 days in FY2020 and 197 days in FY2019.

Improvement in GCA days is augmented by quicker realisation of debtors' collection period of 87 days in FY2021 (Provisional) as against 80 days in FY2020 and 125 days in FY2019. The reduction in GCA is also on account of inventory holding period which has reduced to 32 days in FY2021 (Provisional) as against 92 days in FY2020 and 76 days in FY2019. Similarly, the creditors' payment period has also reduced to 43 days in FY2021 as against 136 days in FY2020 and 126 days in FY2019. The improvement of GCA in FY2021 (Provisional) can be particularly attributed to reduced business activity, shortage of supply in the market resulting in significant decline in its Inventory and Trade Payables.

The fund based working capital limits remain utilised at an average of ~88 percent for the trailing 8 month's period ended May 2021.

Acuité expects that the working capital management to remain moderate over the medium term on account of stable working capital levels maintained by the company.

- **Moderate Financial risk profile supported by expansion of product line**

CGPL has a moderate financial risk profile supported by moderate capital structure and debt protection metrics.

The tangible net worth of the company stood at Rs.30.32 Cr. as on March 31, 2021 (Provisional) as against Rs.13.97 Cr. as on March 31, 2020 and Rs.11.05 Cr. as on March 31, 2019, improvement in networth is on account of accretion of profits to reserves as well as increase in authorised and paid up capital.

The Gearing (Debt to Equity) stood comfortable at 1.09 times as on March 31, 2021 (Provisional) as against 3.03 times as on March 31, 2020 and 4.31 times as on March 31, 2019, with debt profile consisting of both long term and short term debt obligations, including unsecured loans from directors and promoters. The TOL/TNW (Total Outside Liabilities to Tangible Net Worth) stood at 1.45 times as on March 31, 2021 (Provisional) as against 4.55 times as on March 31, 2020 and 6.15 times in FY2019. The Debt-EBITDA stood at 2.31 times as on March 31, 2021 (Provisional) as against 3.81 times as on March 31, 2020 and 6.18 times as in March 31, 2019.

The coverage indicators have consistently improved on a Y-O-Y basis, as reflected in the Interest Coverage Ratio (ICR) of 5.16 times in FY2021 (Provisional) as against 2.96 times in FY2020 and 1.67 times in FY2019, and Debt-Service Coverage Ratio (DSCR) of 2.16 times in FY2021 (Provisional) as against 1.27 times in FY2020 and 0.86 times in FY2019. The NCA/TD (Net Cash Accrual to Total Debt) remain modest at 0.35 times in FY2021 (Provisional) as against 0.14 times in FY2020 and 0.03 times in FY2019.

CGPL is undergoing a capex of Rs.49.67 Cr. towards installation of a new unit for manufacturing Glazed Vitrified Tiles (GVT). This is funded by capital infusion from promoters in the form of equity, unsecured loans, internal accruals and debt. The capex is expected to be completed by September, 2021 with an aim to diversify the product profile.

Acuité believes that the financial risk profile of the company will remain moderate over the medium term on account of moderate working capital management. However, notwithstanding the benefits of the capex, timely completion and stabilisation will remain key rating sensitivities.

Weaknesses

- **Intense competition and vulnerability to cyclicity in end-user industry**

The ceramic tiles industry is intensely competitive, with many small and large players. Additionally, the industry is fragmented and dominated by the unorganised sector. Further, the company faces significant competition while selling its products under on brand from reputed players such as AGL, Kajaria Ceramics Ltd, Somany Ceramic Limited, H&R Johnson (India) (a division of Prism Cement Ltd) and Orient Bell Ltd. The competition, intensified in the recent past because of significant capacity addition over FY2017-FY2018 and moderation in demand with continued slowdown in the real estate sector, which pressurised the overall tile realisation of the company in the past. Intense competition restricts the profitability, given the limited pricing flexibility.

Liquidity position: Adequate

CGPL has adequate liquidity position marked by comfortable Net Cash Accruals (NCA) of Rs.11.41 Cr. vis-à-vis its maturing debt obligations of Rs.5.36 Cr. as on March 31, 2021 (Provisional), giving liquidity buffer. The

Cash Accruals are expected to remain in the range of Rs.12.00 – Rs.20.00 crores against repayment obligations of Rs.4.00-Rs.6.10 crores annually during the FY2022-24 period. The cash and bank balance stood at Rs.0.05 crore as on March 31, 2021 (Provisional). The current ratio stood at 1.78 times as on March 31, 2021 (Provisional) as against 0.99 times as on March 31, 2020.

Acuité believes that CGPL's liquidity is expected to improve and remain at adequate levels over the medium term.

Rating Sensitivities

- Significant improvement in scale of operations while sustaining its profitability margins and financial risk profile.
- Deterioration in the working capital cycle leading to stress in the debt protection metrics or the liquidity position of the firm.

Material Covenants

None

Outlook: Stable

Acuité believes that the company will maintain a 'Stable' outlook over the medium term on account of experienced management, moderate financial risk profile and working capital cycle. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile and liquidity profile most likely as a result of higher than envisaged working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	68.75	63.93
PAT	Rs. Cr.	8.36	2.92
PAT Margin	(%)	12.16	4.57
Total Debt/Tangible Net Worth	Times	1.09	3.03
PBDIT/Interest	Times	5.16	2.96

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

None

***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	Feb-20	8.55%	Jun-24	10.00	ACUITE BB+ / Stable (Assigned)
Term Loan – I	April-20	7.40%	May-23	11.55	ACUITE BB+ / Stable (Assigned)

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan – II	Jun-20	7.40%	July-24	0.83	ACUITE BB+ / Stable (Assigned)
Term Loan – III	March-21	8.50%	Feb-29	4.85	ACUITE BB+ / Stable (Assigned)
Term Loan – IV	Feb-20	8.55%	Jun-24	28.00	ACUITE BB+ / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.77	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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