

Press Release

Ceramax Granito Private Limited

July 01, 2022



Rating Assigned and Upgraded

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|---------------------------------|----------------------|
| Bank Loan Ratings | 0.68 | - | ACUITE A3 Upgraded |
| Bank Loan Ratings | 55.32 | ACUITE BBB- Stable Upgraded | - |
| Bank Loan Ratings | 6.00 | ACUITE BBB- Stable Assigned | - |
| Total Outstanding Quantum (Rs. Cr) | 62.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**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**'.

Acuite has also assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.6.00 Cr. bank facilities of Ceramax Granito Private Limited (CGPL). The outlook is '**Stable**'.

Rationale for rating upgrade

The rating of CGPL is upgraded on account of increase in the company's revenue with further increase expected over the medium term on account of addition of Glaze Vitrified Tiles (GVT) segment to its product line. The rating continues to draw strength from its healthy operating margin which stood stable in the range of 19 - 20 percent. Improvement in operating margin is backed by company's diversification of product line by entering into production of GVT segment along with existing segment of Ceramic Vitrified Tiles (CVT) to reduce revenue concentration risk. It also draws comfort from company's experienced management and established track record of operations. The rating is however constrained by the company's highly working capital intensive operations along with intense competition faced in the industry and vulnerability to cyclicity in end-user industry.

About the Company

CGPL incorporated in the year 2016 is a Bikaner, Rajasthan based entity engaged in the business of manufacturing Ceramic & Glazed Vitrified Tiles. The company sells its products in domestic market through its wide network of more than 200 dealers spread across the states in Northern India like Punjab, Haryana, Rajasthan, Gujarat, Uttar Pradesh, Uttarakhand

amongst others.

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 in the ceramics industry

CGPL incorporated in the year 2016 is engaged in manufacturing of Ceramic & Glazed Vitrified tiles. It is promoted by Mr. Kunj Bihari Gupta (Chairman) and his son Mr. Sidharth Gupta (Director). Also, the company has a qualified team of senior management supporting the promoters. The promoters along with key managerial personnel have an experience of over four decades in the ceramics industry.

Acuité believes that CGPL will continue to benefit from its experienced management which will help the company to establish a healthy relationship with its customers and suppliers.

Moderate financial risk profile

Financial risk profile of CGPL is moderate marked by moderate net worth, high gearing and healthy coverage indicators. The net worth of the company has improved to Rs.36 Cr as on 31 March, 2022 (Provisional) as against Rs.23 Cr as on 31 March, 2021 on account of healthy accretion to reserves and increase in paid up share capital. The gearing (debt-equity) has increased to 2.16 times as on 31 March, 2022 (Provisional) as against 1.78 times as on 31 March, 2021 on account of significant increase in the long term and short term debt availed by the company during the year towards funding of the scheduled capex of expanding into GVT segment. The total debt of Rs.78 Cr as on 31 March, 2022 (Provisional) consists of long term bank borrowings of Rs.42 Cr, short term working capital limit of Rs.20 Cr and unsecured loans from directors of Rs.16 Cr.

The coverage indicators however remained stable and declining marginally despite significant increase in debt levels. The interest coverage ratio stood at 4.86 times for FY2022 (Provisional) as against 4.88 times for FY2021. The DSCR stood at 1.55 times for FY2022 (Provisional) as compared to 1.78 times for FY2021. The Net Cash Accruals to Total debt declined marginally at 0.14 times for FY2022 (Provisional) as against 0.22 times for FY2021. The Total outside liabilities to Tangible net worth has increased to 2.82 times for FY2022 (Provisional) as against 2.47 times for FY2021.

The company has recently completed a debt funded capex for addition of a new product line reporting a revenue of Rs. 10 Cr for 4 months.

Acuite expects CGPL's financial risk profile to improve over the medium term on account of its improving operating performance.

Stable operating performance

CGPL reported marginal increase in its revenues of Rs.72 Cr for FY2022 (Provisional) as against Rs.69 Cr in FY2021 and has achieved this since the company entered into production of its additional segment of Glaze Vitrified Tiles (GVT) during the year along with the production of its existing segment of Ceramic Vitrified Tiles (CVT) which contributed ~13 percent and ~87 percent of sales during the year respectively. Since the commercial production of GVT segment was started in December 2021, it therefore operated with only ~20 percent of its installed capacity till March 2022 and hence the company generated lower sales from this segment during the year. However, going forward the product line is expected to improve CGPL's revenue.

Operating margin of CGPL has also remained stable in the range of 19 - 20 percent for the years under study. It stood at 20.47 percent in FY2022 (Provisional) as against 19.62 percent in FY2021. Apart from this, CGPL caters to several reputed players of the industry such as

Somany Ceramics Ltd., Prism Cements Ltd., Kajaria Ceramics Ltd., Orient Bell Ltd. amongst others from whom they have received good amount of orders in the past as well as in recent times.

Acuité believes that the ability of the company to achieve significant improvement in its scale of operations while improving its profitability margin in near to medium term will remain a key rating sensitivity factor.

Weaknesses

Working capital intensive nature of operations

The operations of CGPL are highly working capital intensive marked by its increase in Gross Current Assets (GCA) of 216 for FY2022 (Provisional) as against 145 days for FY2021. This is primarily on account of high inventory days which stood at 167 days in FY2022 (Provisional) as against 27 days in FY2021 as a result of increase in purchase of raw materials required towards production of new GVT segment as well as due to an increase in unsold finished goods lying with the company during the year end of the same segment. On the other hand, debtors cycle stood improved at 69 days in FY2022 (Provisional) as against 100 days in FY2021 on account of improved realization from its customers. Creditors cycle however stood high at 121 days in FY2022 (Provisional) as against 71 days in FY2021.

Acuité believes that any further deterioration in CGPL's working capital cycle will remain a key monitorable.

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 own brand from reputed players such as 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.

Rating Sensitivities

- Ability to achieve significant improvement in its scale of operations while maintaining profitability margin
- Any further deterioration in the working capital cycle

Material covenants

None

Liquidity Position - Adequate

CGPL has adequate net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.6 Cr to Rs.11 Cr during FY2020 to FY2022 (Provisional) against its repayment obligation in the range of Rs.4 Cr to Rs.9 Cr in FY2020 to FY2022 (Provisional). Going forward the NCA are expected in the range of Rs.18 Cr – Rs.21 Cr for period FY2023-FY2024 against repayment obligation in the range of Rs.10 Cr – Rs.6 Cr for the same period. The working capital operations of the company are highly intensive marked by its increase in gross current asset (GCA) days of 216 days for FY2022 (Provisional) as against 145 days for FY2021. The average bank limit utilization for 6 months' period ended Mar 2022 stood higher at ~94 percent mainly on account of significant increase in purchase of raw materials which were required towards the production of GVT segment against which the payments were made to the suppliers. Current ratio stands at 0.93 times as on 31 March 2022 (Provisional). The company has maintained cash & bank balance of Rs.0.22 crore in FY2022 (Provisional).

Acuité believes that the liquidity of CGPL is likely to remain adequate over the medium term on account of adequate cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that CGPL will maintain 'Stable' outlook over the medium term on account of its experienced management, moderate financial risk profile and increase in revenue. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Key Financials

| Particulars | Unit | FY 22 (Provisional) | FY 21 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income | Rs. Cr. | 72.41 | 68.80 |
| PAT | Rs. Cr. | 5.69 | 5.95 |
| PAT Margin | (%) | 7.86 | 8.65 |
| Total Debt/Tangible Net Worth | Times | 2.16 | 1.78 |
| PBDIT/Interest | Times | 4.86 | 4.88 |

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

Not applicable

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>
- Application Of 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

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|--------------------------------|
| 22 Jun 2021 | Term Loan | Long Term | 4.85 | ACUITE BB+ Stable (Assigned) |
| | Proposed Bank Facility | Short Term | 0.77 | ACUITE A4+ (Assigned) |
| | Term Loan | Long Term | 0.83 | ACUITE BB+ Stable (Assigned) |
| | Term Loan | Long Term | 28.00 | ACUITE BB+ Stable (Assigned) |
| | Term Loan | Long Term | 11.55 | ACUITE BB+ Stable (Assigned) |
| | Cash Credit | Long Term | 10.00 | ACUITE BB+ Stable (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|---------------------|----------------|-----------------------------------|------------------|----------------|----------------|-------------------|---|
| State Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 14.44 | ACUITE BBB- Stable Upgraded (from ACUITE BB+) |
| State Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 3.56 | ACUITE BBB- Stable Assigned |
| Not Applicable | Not Applicable | Proposed Short Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | 0.68 | ACUITE A3 Upgraded (from ACUITE A4+) |
| State Bank of India | Not Applicable | Term Loan | Not available | Not available | Not available | 8.99 | ACUITE BBB- Stable Upgraded (from ACUITE BB+) |
| State Bank of India | Not Applicable | Term Loan | Not available | Not available | Not available | 0.22 | ACUITE BBB- Stable Upgraded (from ACUITE BB+) |
| State Bank of India | Not Applicable | Term Loan | Not available | Not available | Not available | 3.76 | ACUITE BBB- Stable Upgraded (from ACUITE BB+) |
| State Bank of India | Not Applicable | Term Loan | Not available | Not available | Not available | 27.91 | ACUITE BBB- Stable Upgraded (from ACUITE BB+) |
| State Bank of India | Not Applicable | Term Loan | Not available | Not available | Not available | 2.44 | ACUITE BBB- Stable Assigned |

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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