



Press Release

Ceramax Granito Limited (Erstwhile Ceramax Granito Private Limited)
April 17, 2023

Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BBB- Negative Assigned	-
Bank Loan Ratings	61.89	ACUITE BBB- Negative Reaffirmed Stable to Negative	-
Bank Loan Ratings	0.11	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	72.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating at '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating at '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 62.00 Cr. bank facilities of Ceramax Granito Limited (CGL). The outlook is revised from '**Stable**' to '**Negative**'.

Acuite has also assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 10.00 Cr. bank facilities of Ceramax Granito Limited (CGL). The outlook is '**Negative**'.

Rationale for reaffirmation, assigned / revision in outlook

Rating takes into account the improving scale of operations on the back of consequent capacity expansions, moderate financial risk profile of the company marked by improvement in net worth and average debt protection metrics and vast experience of promoters in the industry. However, outlook has been revised on account of working capital intensive nature of operations which has resulted in continuous high dependence on short term external debt. High working capital limit utilization and low unencumbered cash and bank position leaves little buffer to fund any incremental working capital requirements leading to short term liquidity issues. Going forward, company's ability to manage working capital requirements along with meeting its increasing maturing debt obligations will remain key rating sensitivity.

About the Company

CGL 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 CGL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management in the ceramics industry

CGL 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 CGL 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 the company stood moderate marked by moderate net worth, leverage and debt protection metrics. Tangible net worth of the company stood at Rs. 35.33 Cr as on 31st March 2022 as against Rs. 22.72 Cr in FY 2021. The increase in net worth is attributed to accretion of profits in reserve and surplus account, increase in equity share capital and security premium. Total debt of Rs. 78.08 Cr in FY 2022 consists of Rs. 33.48 Cr of long term borrowings, Rs. 16.10 Cr of unsecured loans, Rs. 19.99 Cr of working capital borrowings and Rs. 8.51 Cr of CPLTD. Gearing (Debt to Equity) moderated to 2.21 times in FY 2022 from 1.78 times in FY 2021 due to increase in debt levels as a result of capex undertaken for establishing GVT unit. Interest coverage ratio moderated but stood strong at 4.50 times in FY 2022 as against 4.88 times in FY 2021. DSCR moderated to 1.19 times in FY 2022 as against 1.78 times in FY 2021. NCA/TD moderated to 0.09 times in FY 2022 as against 0.22 times in FY 2021 and Debt-EBITDA moderated from 3.00 times in FY 2021 to 6.93 times in FY 2022 due to increase in debt levels. Although company is executing debt funded capex in FY 2023, team believes that due to the positive contribution of capacity expansion on scale of operations company will be able to maintain the financial risk profile in the medium term without experiencing any significant deterioration.

Weaknesses

Working Capital Management

The operations of CGL are working capital intensive marked by its increase in Gross Current Assets (GCA) of 216 for FY 2022 (Audited) as against 145 days for FY2021. This is primarily on account of high inventory days which stood at 153 days in FY 2022 (Audited) as against 27 days in FY2021 as a result of increase in purchase of raw materials required towards production of its 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 79 days in FY 2022 (Audited) as against 100 days in FY 2021 on account of improved realization from its customers. Creditors cycle however got stretched and stood at 143 days in FY 2022 (Audited.) as against 71 days in FY 2021. Working capital limits remained almost fully utilized at an average of 97.85% for the 15 months' period between December 2021 to February 2023. Although Acuite believes that with the stabilization of production in GVT segment and as per provisional figures of FY 2023, GCA days will moderate as against FY 2022, however the high bank limit utilization indicates elevated working capital requirements leading to short term liquidity issues.

Intense competition and vulnerability to cyclical 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 past because of significant capacity addition by various manufacturers and moderation in demand which happens with cyclical in the real estate sector, which pressurised the overall tile realisation of the company in the past. The intensity of the competition restricts the profitability, due to 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.
- Liquidity Position.

Material covenants

None.

Liquidity Position

Stretched

Company has stretched liquidity position wherein it is facing short term liquidity crunch. In FY 2022 company has generated net cash accrual of Rs. 7.31 Cr against maturing debt obligation of Rs. 5.80 Cr. In FY 2023 company is expected to generate NCA of around Rs. 14.54 Cr against maturing debt obligation of Rs. 8.51 Cr. Company has unencumbered cash and bank position of Rs. 0.16 Cr and current ratio of 0.88 times in FY 2022. Bank limit utilization has consistently remained high wherein utilization has remained above 99% in the last 6 months and average utilization standing at 97.85% for the 15 months' period between December 2021 to February 2023.

Outlook: Negative

Acuité believes that CGL will continue to have short term liquidity pressure and hence the outlook is revised to "Negative". The outlook may be revised to 'Stable' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and maintaining adequate liquidity position. Conversely, the rating can be downgraded in case of significant dip in revenue or deterioration in the working capital management resulting into further stress on liquidity profile of the company.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	72.41	68.80
PAT	Rs. Cr.	4.90	5.95
PAT Margin	(%)	6.77	8.65
Total Debt/Tangible Net Worth	Times	2.21	1.78
PBDIT/Interest	Times	4.50	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>
- Entities In Manufacturing Sector:- <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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Jul 2022	Term Loan	Long Term	3.76	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Term Loan	Long Term	0.22	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Proposed Bank Facility	Short Term	0.68	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	3.56	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	14.44	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Term Loan	Long Term	27.91	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Term Loan	Long Term	2.44	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	8.99	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Not Applicable	Not Applicable	Proposed Short Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	0.11	ACUITE A3 Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.48	ACUITE BBB- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	24.38	ACUITE BBB- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.00	ACUITE BBB- Negative Assigned
State Bank	Not	Working Capital	Not	Not	Not	Simple	2.44	ACUITE BBB- Negative

of India	Applicable	Term Loan	available	available	available			Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.59	ACUITE BBB- Negative Reaffirmed Stable to Negative

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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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