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## ICRA upgrades short term rating for bank facilities of Orient Ceramics & Industries Limited; reaffirms long term rating and assigns stable outlook

ICRA has upgraded the short term rating for the Rs. 20 crore<sup>1</sup> non-fund based limits of Orient Ceramics & Industries Limited (OCIL) from A2 (pronounced A two) to A2+ (pronounced A two plus)<sup>†</sup>. ICRA has reaffirmed the rating for the Rs. 66.06 crore fund based limits of OCIL at LBBB+ (pronounced L triple B plus). The outlook on the long term rating is stable.

The ratings factor in OCIL's experienced promoters with long track record in the tile manufacturing business, its established position in the domestic market in the Northern region, its increasing focus on premium tiles segment which is expected to provide a fillip to profitability and the favourable demand prospects for the wall tiles and floor tiles in the domestic market. The ratings also take into consideration the expected growth in OCIL's revenues on the back of outsourcing arrangements entered into by the company to augment its sales specially in West and South India. The ratings also factor in the moderate gearing of the company (0.97 times as on March 31, 2010), adequate debt coverage indicators, moderate working capital intensity of operations and adequate liquidity which have warranted an upgrade in its short term rating. The ratings are however constrained by the relatively small size of the company as compared with the other majors, the highly competitive nature of the industry with the presence of large organized players as well as a large unorganized market and the vulnerability of the tile business to cyclical trends in the real estate sector. Going forward, ICRA expects the revenues of the company to grow on account of buoyant demand prospects and outsourcing arrangements / joint ventures (JVs) planned by the company, however, the funding requirements of the company are expected to increase with investment requirements in JVs and increase in scale of operations. Nevertheless, with healthy internal accruals and moderate working capital intensity, the gearing and debt coverage indicators are expected to remain moderate. The upgrade of the short-term rating also factors in the satisfactory liquidity as measured by unutilized bank limits.

### Company Profile

OCIL is engaged in the business of manufacturing and marketing of glazed ceramic wall, floor tiles and vitrified tiles. The company has its manufacturing facility at Sikanderabad (Uttar Pradesh) with an installed capacity of 220,000 MT of ceramic and vitrified tiles.

### Recent Results

For FY 2010, OCIL reported Operating Income of Rs. 256.07 crore and Profit After Tax of Rs. 11.46 crore. For Q1 of FY 2011, the company reported Operating Income of Rs. 60.88 crore and Profit After Tax of Rs. 5.31 crore.

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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

<sup>1</sup>100 lakh = 1 crore = 10 million

<sup>†</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

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