

November 19, 2021

Acrysil Limited: Long-term rating upgraded to [ICRA]A(Stable); Short-term rating reaffirmed at [ICRA]A2+; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit/Working Capital Limits	72.00	82.00	[ICRA]A(Stable) Upgraded from [ICRA]A-(Stable)
Fund-based Interchangeable Limit	(72.00)#	(82.00)#	[ICRA]A(Stable) Upgraded from [ICRA]A-(Stable)
Fund-based Term Loan	20.62	49.31	[ICRA]A(Stable) Upgraded from [ICRA]A-(Stable)
Non-fund Based Letter of Credit	10.00	10.00	[ICRA]A2+ Reaffirmed;
Non-fund Based Stand by Line of Credit	(10.00)#	(10.00)#	[ICRA]A2+ Reaffirmed;
Non-fund Based Bank Guarantee	0.00	(25.00)#	[ICRA]A2+ Reaffirmed;
Unallocated Limit	2.38	0.00	-
Total	105.00	141.31	

*Instrument details are provided in Annexure-1

#WCDL of Rs. 67.0 crore, Export Credit/BC/ULC/SLC/CC/BD of Rs. 82.0 crore, FBD/FBN/FBP of Rs. 25.0 crore, Bank Guarantee of Rs. 25.0 crore

Rationale

The upgrade in long-term rating for the bank facilities of Acrysil Limited (AL) considers the steady growth in its scale of operations in FY2021 as well as H1 FY2022 on the back of a robust demand scenario in the export as well as domestic markets and notable jump in operating margins driven by rise in realisations as well as better absorption of fixed costs due to higher top line. The same has also led to consistent improvement in the debt coverage metrics as reflected by improvement in interest coverage to 8.0 times and TD/OPBIDTA to 1.5 times in FY2021 compared to 4.8 times and 2.1 times as of FY2020. The ratings further factor in the healthy return indicators, the comfortable capital structure and the adequate liquidity position. Further, the ratings continue to favourably factor in the extensive experience of the promoters and the established position of the Acrysil Group in the kitchen sink industry, along with the diversified product portfolio and the reputed clientele base of the company.

The ratings, however, are constrained by the working capital-intensive business due to the high inventory holding period and the relatively long collection cycle apart from the vulnerability of profitability to raw material prices. Further, in the export markets, the company faces competition from other established players, though it is favourably placed in terms of cost efficiency as the manufacturing operations are based in India. Further, as ~80% of its revenue in FY2021 came from exports, the company's profitability remains vulnerable to adverse forex movements, although the risk is partially mitigated by natural hedge in terms of imports. ICRA also notes that the company has undergone capex of about Rs. 25.0 crore in FY2021 and has planned capex of around Rs. 73 crore during FY2022-FY2023 to more than double the capacity of sinks compared to that in FY2021. Though this provides the company the leverage to capitalise on the growing demand, AL's ability to timely commission and successfully stabilise and scale-up operations to generate commensurate returns from the same remain critical from a credit perspective. Since the capex is partly funded by debt, ICRA notes that AL is also looking at a sizeable Qualified Institutional Placement (QIP) to the tune of Rs. 150 crore in the near term; however, the exact objective of the fund raising and timeline are not clear at present. ICRA will, thus, continue to closely monitor the developments related to the event.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that AL will continue to maintain its business positioning in the granite-based kitchen sink industry and will benefit from rising penetration of granite-based sinks in the domestic sector as well as continuing demand from exports.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established presence of Group in kitchen sink industry – AL was incorporated in 1987 and is the leading manufacturer of granite-based kitchen sinks in India, also known as 'Composite Quartz Sink'. Its promoters have over three decades of experience in the kitchen sink industry (both granite and steel sinks). Thus, the promoters' long experience in the industry, apart from their established relationships with suppliers and customers, is expected to support the business profile.

Steady revenue growth; healthy return indicators and debt coverage indicators; and comfortable capital structure - The Group's operating income (consolidated) grew by 12% to Rs. 309.7 crore in FY2021 from Rs. 276.2 crore in FY2020 due to deeper penetration in the export market. In H1 FY2022, the company achieved sales of Rs. 217.0 crore on a consolidated basis. ICRA expects AL to continue its growth trajectory, supported by robust demand scenario in the domestic as well as export markets. The operating margin has also improved to 21.6% in FY2021 from 17.2% in FY2020 because of increase in sales realisation. Consequently, the return indicators stood healthy, as reflected by ROCE of 23.4% in FY2021. The capital structure remained comfortable, with a gearing at 0.5 time in FY2021 (consolidated). The debt coverage indicators have shown sustained improvement, with an interest coverage at 8.0 times, Total debt/OPBDITA at 1.5 times, NCA/Total Debt at 48% and DSCR at 3.3 times in FY2021 compared to interest coverage at 4.8 times, Total debt/OPBDITA at 2.1 times, NCA/Total Debt at 31% and DSCR at 2.0 times in FY2020.

Diversified product portfolio - The Group has diversified into various products such as granite and stainless steel kitchen sinks, and the bath segment. It also trades in kitchen appliances. Product/segmental diversification is expected to result in operational synergies to support AL's future revenue growth.

Credit challenges

Working capital intensive business and negative free cash flows due to high capex– The company's financial risk profile is marked by high working capital intensity (NWC/OI at 37% as on March 31, 2021) owing to high inventory holding and a relatively long receivable cycle, though the inventory days reduced in FY2021 compared to FY2020 levels. Consequently, the working capital limit utilisation was high, at 85%, during the 12-month period from October 2020 to September 2021. Free cash flow remained negative during past fiscals because of high capital expenditure, given gradual capacity addition undertaken in the past.

Vulnerability of profitability to fluctuation in raw material prices and foreign exchange – AL's profitability remains vulnerable to adverse movement in the price of key raw materials, i.e., resins, because of its limited ability to pass on any increase in prices for ongoing orders. Though, the operating margin has grown in FY2021, supported by price hikes, the company's ability to pass on such rises, going forward, as well as manage vulnerability of forex fluctuations, given its large exports, will remain a key rating monitorable.

Competition in export markets - As exports constitute about 80% of the total revenue in FY2021, the company faces competition from established multinational companies in the international kitchen sink industry, though it benefits in terms of better cost efficiency. Further, the company is placed favourably in the domestic granite sink market.

Aggressive expansion plans of more than doubling of capacity by FY2023; timely commencement of the facility with adequate off-take remains key to commensurate returns – AL has undertaken capex of about Rs. 25 crore during FY2021 and planned capex of about Rs. 73 crore over the FY2022 and FY2023 period for increasing its manufacturing capacity to 12,00,000 units from 5,00,000 units. The capex is to be funded through a mix of debt and internal accruals. Timely commissioning of the capacity and AL's ability to successfully stabilise and scale up operations so as to generate commensurate returns would remain

key for its credit metrics, going forward.

Liquidity position: Adequate

The liquidity position of AL is adequate, since its cash accruals are expected to remain more than adequate to cover the debt repayments in the near to medium term. The company had an unencumbered cash balance (Rs. 18.4 crore as on March 31, 2021 and Rs. 12.5 crore as on September 2021 on a consolidated basis) and unutilised limits of Rs. 6.2 crore as of September 2021 end. Further, the company has already tied up for debt for the capex to be undertaken in the near term, which will further support its liquidity.

Rating sensitivities

Positive factors- ICRA could upgrade AL's rating if the company is able to significantly scale up its operations, while sustaining its profitability or improving its working capital intensity and overall liquidity profile.

Negative factors- Negative pressure on AL's rating could arise if there is a decline in the scale of operations along with a moderation in profitability, or if there is a further stretch in the working capital cycle or higher than expected debt-funded capex that materially impacts its debt coverage indicator and liquidity profile. Further, TD/OPBDITA above 2.0 times or ROCE below 15% on a sustained basis may lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of AL, along with its subsidiary, Acrysil Steel Limited, Sternhagen Bath Private Limited, Acrysil GmbH, Germany, Acrysil Appliances Limited, Acrysil UK Limited and Acrysil Products Limited, UK (step-down subsidiary).

About the company

Acrysil Limited was incorporated in 1987 by a first-generation promoter, Mr. Ashwin Parekh. It manufactures granite-based kitchen sinks, also known as 'Composite Quartz Sinks'. The company has a technical collaboration with the German entity, Schock & Co., which is a leading decorative mouldings company in the world. The registered office of the company is in Mumbai and its manufacturing plant is at Bhavnagar, Gujarat, which is ISO: 9001:2008 certified. At present, the unit has a total installed manufacturing capacity of 8,40,000 sinks per annum, which is to be enhanced to 12,00,000 sinks per annum by Q2 FY2023.

The Group also manufactures stainless steel kitchen sinks mainly for the domestic market, through Acrysil Steel Limited, wherein AL holds ~85% stake. AL holds 100% stake in Acrysil GmbH, Germany, and Acrysil UK Limited. Acrysil Products Limited is a step-down subsidiary of AL, which helped it to enter the UK market. On April 30, 2020, the company also incorporated a wholly-owned subsidiary, Acrysil USA Inc., for expansion and deeper penetration into the US market.

Key financial indicators- Consolidated

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	276.2	309.7
PAT (Rs. crore)	22.9	39.3
OPBDIT/OI (%)	17.2%	21.6%
PAT/OI (%)	8.3%	12.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9
Total Debt/OPBDIT (times)	2.1	1.5
Interest Coverage (times)	4.8	8.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of September 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Nov 19, 2021	Sep 09, 2020	Sep 10, 2019	Oct 31, 2018
1	Fund-based Cash Credit/Working Capital Limits	Long Term	82.00	-	[ICRA]A(Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
2	Fund based Interchangeable Limit	Long Term	(82.00)#	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	-
3	Fund-based Term Loan	Long Term	49.31	30.36	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
4	Non-Fund based Letter of Credit	Long Term	10.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2
5	Non-Fund based Stand by Line of Credit	Short Term	(10.00)#	-	[ICRA]A2+	[ICRA]A2+	-	-
6	Non-Fund based bank Guarantee	Short Term	(25.00)#	-	[ICRA]A2+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based Cash Credit/Working Capital Limits	Simple
Fund based Interchangeable Limit	Not Applicable
Fund-based Term Loan	Simple
Non-Fund based Letter of Credit	Very Simple
Non-Fund based Stand by Line of Credit (Interchangeable Limit)	Not applicable
Non-Fund based bank Guarantee (Interchangeable Limit)	Not applicable
Unallocated Limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund-based Cash Credit/Working Capital Limits	NA	NA	NA	82.00	[ICRA]A(Stable)
NA	Fund based Interchangeable Limit	NA	NA	NA	(82.00) [#]	[ICRA]A(Stable)
NA	Fund-based Term Loan	FY2014	NA	FY2026	49.31	[ICRA]A (Stable)
NA	Non-Fund based Letter of Credit	NA	NA	NA	10.00	[ICRA]A2+
NA	Non-Fund based Stand by Line of Credit	NA	NA	NA	(10.00) [#]	[ICRA]A2+
NA	Non-Fund based bank Guarantee	NA	NA	NA	(25.00) [#]	[ICRA]A2+_

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Acrysil Steel Limited	85.00%	Full Consolidation
Acrysil Appliances Limited	100.00%	Full Consolidation
Stern Hagen Pvt. Limited	84.90%	Full Consolidation
Acrysil Gmbh, Germany	100%	Full Consolidation
Acrysil UK Limited	100%	Full Consolidation
Acrysil USA INC	100%	Full Consolidation

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Branches



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