

May 02, 2022

Racy Sanitary Wares: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loan	4.34	4.34	[ICRA]BB-(Stable); reaffirmed
Fund-based – Cash Credit	5.00	5.00	[ICRA]BB-(Stable); reaffirmed
Non-fund Based – Bank Guarantee	0.80	0.80	[ICRA]A4; reaffirmed
Unallocated Limits	1.11	1.11	[ICRA]BB-(Stable)/[ICRA]A4; reaffirmed
Total	11.25	11.25	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings favourably factors in the extensive experience of Racy Sanitary Wares' (RSW) partners in the ceramic industry and its proximity to raw material sources in Morbi (Gujarat). ICRA also notes RSW's reputed clientele such as Asian Paints, Jaquar and Company, Cera Sanitaryware and Kajaria Sanitaryware, etc. The firm's established relationships with major customers ensures repeat business and steady revenue growth. The ratings also consider the intense competition in the sanitaryware industry and the exposure of RSW's profitability to the volatility in raw material and fuel prices.

The ratings are, however, constrained by RSW's average financial risk profile, characterised by relatively moderate scale operations, declining profitability, a leveraged capital structure, average debt protection metrics and working capital-intensive nature of operations, which results in a stretched liquidity position. The ratings are also constrained by the exposure of the firm's operations and cash flows to the cyclicity in the real estate industry, which is the main end-user sector. ICRA also notes the potential adverse impact on the firm's net worth and gearing level in case of any substantial withdrawal from the capital accounts, given its partnership nature.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that RSW will continue to benefit from the experience of its partners in the ceramic industry.

Key rating drivers and their description

Credit strengths

Extensive experience of partners – The firms' partners have an extensive experience in the ceramic industry through their association with other entities in the ceramic business.

Location-specific advantage – The firm benefits from low transportation costs and easy access to quality raw materials, along with power and fuel sources, as the plant is strategically located in the Morbi region of Gujarat, which is considered the ceramic hub of India.

Reputed clientele – RSW's customer profile comprises reputed players in the sanitary ware industry such as Asian Paints, Jaquar, Cera Sanitaryware and Kajaria Sanitaryware, among others. The firm's established relationships with major customers ensures repeat business.

Credit challenges

Moderate financial risk profile – RSW’s scale of operations remained relatively small with an operating income (OI) of Rs.58.3 crore in FY2022 (provisional unaudited financials) and Rs. 43.6 crore in FY2021. The operating profitability decreased to 10.5% in FY2021 from 11.2% in FY2020, due to a sharp increase in gas prices. However, the net profitability was moderate at 4.4% in FY2021 because of high interest and depreciation charges. The capital structure and coverage indicators were modest, with total debt/TNW at 1.8 times, total debt/OPBDITA at 3.9 times and interest coverage at 2.5 times in FY2021. The working capital requirements remained high because of the elongated receivables and high inventory days, which is largely funded by extending its credit period from vendors.

Vulnerability of profitability to adverse fluctuations in raw material and fuel prices – Raw materials and fuel are the two major components that determine cost competitiveness in the sanitary ware industry. The firm has little control over the prices of key inputs. RSW’s margins are exposed to the raw material and fuel price fluctuations, as it has limited ability to pass on any upward movements in prices to its customers.

Intense competition and cyclicity in real estate industry – The sanitary ware industry is highly fragmented with competition from both the organised and unorganised segments. There are many players in the unorganised segment (most of them Gujarat-based) who operate with low-cost structures, limiting the firm’s pricing flexibility and bargaining power with customers, which puts pressure on its revenues and margins. Further, the real estate industry is the major end-user of sanitary ware, and hence RSW’s profitability and cash flows remain exposed to the cyclicity in the industry.

Risks associated with partnership constitution – RSW, being a partnership firm, is exposed to adverse capital structure risk, where any substantial capital withdrawal could negatively impact its net worth and capital structure.

Liquidity position: Stretched

RSW’s overall liquidity profile will remain stretched, given the working capital-intensive operations and high dependence on creditors. However, a cushion in the working capital limit and cash accruals is expected to be adequate against impending debt repayments.

Rating sensitivities

Positive factors – ICRA could upgrade RSW’s ratings if a sustained increase in revenues and profitability leads to higher-than-expected cash accruals, and better working capital management strengthens the overall financial risk profile.

Negative factors – Pressure on RSW’s ratings could arise if a decline in revenues and profitability leads to lower-than-expected cash accruals, or if any major debt-funded capital expenditure or capital withdrawal or stretch in the working capital cycle weakens the firm’s capital structure and liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

Racy Sanitary Wares, established in January 2014 as a partnership firm, manufactures ceramic sanitary ware such as wash basins, pedestal wash basins, wall hung, closets, urinals, sinks, etc. The manufacturing facility at Wankaner (Gujarat) has an installed capacity of 6 lakh pieces per annum. RSW is managed by partners who have an extensive experience in the ceramic sanitary ware industry through their association with other entities involved in the related business, namely Big Tiles and Bonza Vittrified Pvt. Ltd.

Key financial indicators (Audited)

Racy Sanitary Wares Standalone	FY2020	FY2021
Operating Income (Rs. crore)	40.4	43.6
PAT (Rs. crore)	1.6	1.9
OPBDIT/OI (%)	11.2%	10.5%
PAT/OI (%)	3.8%	4.4%
Total Outside Liabilities/Tangible Net Worth (times)	3.5	3.1
Total Debt/OPBDIT (times)	3.8	3.9
Interest Coverage (times)	2.4	2.5

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore) *	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 02, 2022	Apr 08, 2021	Jul 7, 2020	Jun 10, 2019
1	Term Loans	Long Term	4.34	4.01	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	[ICRA]B+(Stable)
2	Cash Credit	Long Term	5.00	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	[ICRA]B+(Stable)
3	Bank Guarantee	Short Term	0.80	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
4	Unallocated Limits	Long Term / Short Term	1.11	-	[ICRA]BB-(Stable)/[ICRA] A4	[ICRA]BB-(Stable)/[ICRA] A4	[ICRA]B+(Stable)/[ICRA] A4	[ICRA]B+(Stable)/[ICRA]A4

Amount in Rs. Crore; * As of February 2021

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Cash Credit	Simple
Bank Guarantee	Very Simple
Unallocated Limits	NA

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, are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loans	FY2018	8.8%-10.55%	FY2030	4.34	[ICRA]BB- (Stable)
NA	Cash Credit	NA	NA	NA	5.00	[ICRA]BB- (Stable)
NA	Bank Guarantee	NA	NA	NA	0.80	[ICRA]A4
NA	Unallocated Limits	NA	NA	NA	1.11	[ICRA]BB- (Stable)/[ICRA]A4

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Ashish Modani
+91 22 6114 3414
ashish.modani@icraindia.com

Mayank Agrawal
+91 79 4027 1514
mayank.agrawal@icraindia.com

Soumantak Bagchi
+91 33 7150 1226
soumantak.bagchi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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