

January 29, 2024

## Sanskar Ceramics Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term loan	35.49	35.49	[ICRA]BBB (Stable); reaffirmed
Fund-based – Cash credit	35.00	35.00	[ICRA]BBB (Stable); reaffirmed
Non-fund based – Bank guarantee	7.40	7.40	[ICRA]A3+; reaffirmed
<b>Total</b>	<b>77.89</b>	<b>77.89</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of ratings for Sanskar Ceramics Private Limited (SCPL) factors in its strong parentage with Prism Johnson Limited (PJL) holding 50% stake, along with the extensive experience of its promoters and favourable location of its plant (Morbi, Gujarat). The company's association with H&R Johnson (India) (HRJ), which is a division of PJL, helps it to leverage the latter's strong brand, established market position and vast distribution network. Moreover, the offtake risk for SCPL is mitigated because of its sales arrangement with HRJ, which enables savings in marketing and distribution overheads. At present, SCPL sells its entire production to PJL.

SCPL witnessed 22% YoY growth in revenues in FY2023 on the back of modernisation and increased production capacity in its wall tile unit in February 2023, which was well supported by improved product offtake by PJL. The moderation in input gas prices, primarily LNG and propane, helped in improving its operating margins in H1 FY2024 to 9.8% (from 7.1% FY2023). The expansion in plant capacity (to 2,02,800 MTPA from 1,80,000 MTPA) is expected to support an increase in SCPL's scale of operations going forward. ICRA draws comfort from the promoter group's commitment in extending timely direct/indirect financial support to the company, in case the need arises. Over the years, PJL has supported the entity by providing timely financial support highlighting the management's sensitivity to reputation risk associated with delay/missed payment by any of PJL entities.

The ratings, however, remain constrained by SCPL's average albeit improving financial risk profile, characterised by moderate profitability, average debt coverage indicators and high working capital intensity. The ratings are constrained by the vulnerability of SCPL's profitability to fluctuations in raw material and fuel prices, intense competition in the industry and the exposure of its operations and cash flows to the cyclical nature in the real estate industry, which is the key end-user sector.

The Stable outlook on the long-term rating reflects ICRA's expectation that SCPL will continue to benefit from the association with PJL (as a JV partner and sole customer) and maintain its business positioning in the ceramic industry.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters and location-specific advantage** – The promoter group has long-standing experience in the ceramic industry. Moreover, the strong market presence of one of the JV partners, PJL, and the established relationship of SCPL with customers (HRJ) and suppliers support the business profile. SCPL benefits from its strategic location in the ceramic hub of Morbi (Gujarat), which enables easy access to raw material and helps to save on the transportation cost.

**Strong brand, market position and vast distribution network of HRJ viz. key customer** – HRJ is a leading player in the Indian tile industry and enjoys a widespread distribution network, which enhances its market presence. PJJ holds 50% stake in SCPL. Hence, the latter derives operational benefits from HRJ's established brand name and the franchise distribution network. Moreover, the offtake risk for SCPL is mitigated to a significant extent as 100% of its revenues H1 FY2024 (90% in FY2023) are derived from sales to PJJ. SCPL remains a key supplier from the Morbi region for PJJ's demand in the western parts of the country. ICRA draws comfort from the promoter group's commitment in extending timely direct/indirect financial support to SCPL, in case the need arises. ICRA notes that while Rs. 10 crore was infused equally by both partners in FY2023, there has not been any fund infusion in FY2024.

### Credit challenges

**Modest leverage and debt coverage indicators** – While SCPL reported a 22% YoY increase in revenue in FY2023 to Rs. 189.6 crore, the scale of operations continues to remain modest. Its capital structure remained leveraged with gearing at 1.9 times as on September 30, 2023 (FY2023: 2.1 times). Its Total debt/OPBDITA, though improved, continued to remain high at 3.5 times (FY2023: 4.9 times). The debt service coverage ratio remained modest at 1.2 times in H1 FY2024 (FY2023: 0.9 times). Owing to the company's focus on expediting supplier payment and get additional discount, if any, the overall fund-based utilisation has increased from November 2023. Its ability to maintain adequate liquidity cushion to take care of any financial remains vital from the credit perspective and remains a key monitorable.

**Vulnerability of profitability to fluctuations in raw material and fuel prices** – Raw material and fuel are the two major cost components (~70%-80%) that determine the cost competitiveness in the ceramic industry. SCPL has limited control over the prices of its key inputs. Hence, its profitability remains susceptible to fluctuations in raw material and fuel prices, given its limited ability to pass on the rise to customers amid intense industry competition.

**Intense competition and cyclicity in real estate industry** – The tile industry continues to be competitive, with the presence of large and organised players as well as numerous small-scale tile manufacturers, resulting in pressure on revenues and margins. Apart from this, the real estate industry is the major end-user of ceramic tiles. Thus, the Group's sales and cash flows are vulnerable to cyclicity in these segments. Nevertheless, comfort is drawn from the strong brand presence and the established distribution network of the parent company, PJJ, which helps in mitigating the offtake risk for the Group.

### Liquidity position: Adequate

SCPL's liquidity is expected to remain adequate, supported by improving cash flows from operations and cushion available in the working capital lines (Rs. 4.9 crore as on December 31, 2023). These are likely to remain sufficient against the impending debt obligations over the next 12-15 months. ICRA expects SCPL to continue receiving need-based, timely and adequate funding support from its promoters, in line with their past track record, if the need arises.

### Rating sensitivities

**Positive factors** – The ratings could be upgraded in case of a significant scale up in SCPL's operations, along with sustained improvement in earnings and coverage metrics. Moreover, material improvement in PJJ's credit profile will be a credit positive for the company.

**Negative factors** – Downward pressure on the ratings could arise if there is a sustained pressure on earnings or coverage metrics, or any significant stretch in the working capital cycle results in a deterioration in the liquidity profile. Further, any substantial debt-funded capex impacting the leverage and coverage metrics, weakening of the parent's credit profile, or any reduction in the linkages with the parent company, may also put negative pressure on the ratings.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Parent/Group Company: Prism Johnson Limited (PJM) ICRA expects PJL to be willing to extend financial support to SCPL out of its need to protect its reputation from the consequences of a Group entity's distress
Consolidation/Standalone	Standalone

## About the company

Incorporated in April 2013, SCPL manufactures glazed vitrified and wall tiles. It began commercial operations in February 2014, with an installed manufacturing capacity of 39,150 metric tonnes per annum (MTPA) of wall tiles. The company's manufacturing facility is in Morbi, Gujarat. SCPL has two production units, unit 1 is into ceramic glazed vitrified tiles manufacturing (1,44,000 MTPA capacity) and unit 2 is into ceramic glazed wall tiles manufacturing (58,800 MTPA capacity, increased from 36,000 MTPA in February 2023). The total installed capacity of both units is currently 2,02,800 MTPA capacity.

### Key financial indicators (audited)

SCPL standalone	FY2022	FY2023	H1FY2024*
Operating income (Rs. crore)	155.4	189.6	93.9
PAT (Rs. crore)	(3.1)	0.6	2.3
OPBDIT/OI (%)	5.6%	7.1%	9.8%
PAT/OI (%)	(2.0%)	0.3%	2.4%
Total outside liabilities/Tangible net worth (times)	3.8	3.7	3.4
Total debt/OPBDIT (times)	7.5	4.9	3.5
Interest coverage (times)	1.7	2.5	3.2

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation, \* Provisional

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Sept 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jan 29, 2024	Dec 23, 2022	Oct 07, 2021	Aug 20, 2020
1 Term loans	Long term	35.49	19.91	[ICRA]BBB (Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB-(Stable)
2 Cash credit	Long-term	35.00	21.26	[ICRA]BBB (Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB-(Stable)
3 Bank guarantee	Short-term	7.40	5.56	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Term loan	Simple
Long-term – Cash credit	Simple
Short-term – Bank guarantee	Very Simple

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: [Click Here](#).

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2023	9.25%	FY2029	35.49	[ICRA]BBB (Stable)
NA	Cash credit	NA	NA	NA	35.00	[ICRA]BBB (Stable)
NA	Bank guarantee	NA	NA	NA	7.40	[ICRA]A3+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

#### Annexure II: List of entities considered for consolidated analysis – Not Applicable

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