

November 21, 2022

Eros for Sanitarywares: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working capital facilities	8.00	[ICRA]BB (Stable) assigned
Fund-based – Term loan	10.18	[ICRA]BB (Stable) assigned
Non-fund based – Bank guarantee & Credit exposure limit	2.97	[ICRA]A4 assigned
Total	21.15	

*Instrument details are provided in Annexure I

Rationale

The ratings assigned to Eros for Sanitarywares (EFS) are constrained by the firm's moderate financial risk profile, characterised by a modest scale of operations, moderate coverage indicators and high working capital intensity. The ratings factor in the intense competition in the sanitaryware industry and the exposure of its profitability to adverse volatility in raw material and fuel prices. The ratings further take into account 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 its net worth and gearing in case of any substantial withdrawal from the capital accounts, given its constitution as a partnership firm.

The ratings, however, favourably factor in the extensive experience of the promoters in the sanitaryware industry and the proximity to raw material sources, by virtue of its presence in Morbi (Gujarat).

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in ceramic industry - EFS is promoted by Mr. Karshanbhai Patel, who has over three decades of experience in the sanitaryware industry.

Location-specific advantage - The firm benefits in terms of low transportation cost and easy access to quality raw materials as well as power and fuel sources due to the plant's strategic location in the Morbi region of Gujarat, which is considered to be the ceramic hub of India. Also, Kandla Port is located within 100 kms from the unit, which helps in exports.

Credit challenges

Modest scale of operations and moderate financial risk profile - EFS' scale remains relatively modest, and the operating income (OI) has fluctuated during the past five years. Further, the return indicators remained under pressure due to the extensive capex undertaken during the last two years, along with moderation in profitability. Its coverage indicators remained moderate with TD/OPBDITA at 3.2 times and DSCR at 1.2 times in FY2022. The firm's working capital intensity remains high, as evident from NWC/OI of 48% as on March 31, 2022, on account of higher inventory and debtors. Consequently, the working capital limit utilisation remains high as reflected in average utilisation of 84% for the 12-month period ended September 2022.

Vulnerability of profitability to adverse fluctuations in raw material and fuel prices - EFS' profitability remains vulnerable to any increase in raw material prices (Zirconium Silicate, gypsum powder, clay, and feldspar) and fuel (PNG) as these two components form a major part of its cost structure. With variation in gas prices and inflationary pressures, the operating margins moderated to 13% in FY2022 from 17% in FY2018. Further, given the small scale of operations and intense competition in the industry, EFS' ability to pass on the cost escalations to its customers remains limited.

Intense competition and cyclical in real estate industry - The sanitaryware manufacturing industry is highly competitive because of low entry barriers. The presence of both organised as well as numerous unorganised players in Gujarat limits the firm's pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins. In the export market of the Middle East, EFS faces stiff competition from cheaper imports from China. Further, the real estate industry is the major end-user of ceramic tiles, and hence the firm's profitability and cash flows remain highly vulnerable to the cyclical in the real estate industry.

Risk associated with partnership constitution - EFS' constitution as a partnership firm exposes it to adverse capital structure risk, wherein any substantial capital withdrawal could negatively impact its net worth and the capital structure.

Liquidity position: Stretched

EFS liquidity is expected to remain stretched due to high working capital requirements and limited cushion in working capital limits (84% on an average utilisation over the 12 months that ended in September 2022). However, absence of any major capex requirement in the near to medium term and adequacy of its cash accruals against the repayment obligations provides some comfort. Timely enhancement of working capital limits to support scale-up of operations and the promoters' ability to support any incidental funding requirements due to cash flow mismatch remains crucial.

Rating sensitivities

Positive factors - ICRA could upgrade EFS' ratings with substantial scale up of operations and profitability leading to improvement in its net worth on a sustained basis. This, along with better working capital management and improvement in liquidity profile, may result in a rating upgrade.

Negative factors - Pressure on EFS' ratings could arise if a sustained decline in revenues and profitability leads to lower cash accruals, or if any major debt-funded capital expenditure, 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 firm's standalone financial profile.

About the company

Established in June 2006 as a partnership firm, EFS is promoted by Mr. Karshanbhai Patel. EFS, based out of the Morbi region of Gujarat, manufactures ceramic sanitary-ware products like pedestal basins, wall hung basins, tabletop basins, thin wash basins and thin tabletops, counter/ under counter basins, closets, urinals, and pans. The unit commenced commercial operations in April 2008. The current manufacturing capacity is 8,46,000 pieces per annum.

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income (Rs. crore)	23.8	35.7
PAT (Rs. crore)	0.4	0.7
OPBDIT/OI (%)	9.7%	13.1%
PAT/OI (%)	1.5%	1.8%
Total outside liabilities/Tangible net worth (times)	0.9	1.0
Total debt/OPBDIT (times)	6.7	3.2
Interest coverage (times)	2.2	3.5

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

Source: Company data; ICRA Research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				Nov 21, 2022	-	-	Oct 01, 2019
1 Working capital facilities	Long-term	8.00	6.86	[ICRA]BB (Stable)	-	-	[ICRA]BB+ (Stable) Withdrawn
2 Term loan	Long-term	10.18	8.19	[ICRA]BB (Stable)	-	-	[ICRA]BB+ (Stable) Withdrawn
3 Bank guarantee & credit exposure limit	Short-term	2.97	1.85	[ICRA]A4	-	-	[ICRA]A4+ Withdrawn
4 Unallocated limits	Long-term/Short term	-	-	-	-	-	[ICRA]BB+ (Stable)/A4+ Withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Working capital facilities	Simple
Long-term – Term loan	Simple
Short-term - Bank guarantee & Credit exposure limit	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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working capital facilities	March 31, 2022	NA	March 31, 2023	8.00	[ICRA]BB (Stable)
NA	Term loan {Covid Emergency Credit Line}	October 3, 2020*	NA	May 31, 2022	0.26	[ICRA]BB (Stable)
NA	Term loan {Guaranteed Emergency Credit Line}	October 3, 2020*	NA	May 31, 2024	1.52	[ICRA]BB (Stable)
NA	Term loan {Guaranteed Emergency Credit Line 1.0 Extension}	October 3, 2020*	NA	March 31, 2027	1.01	[ICRA]BB (Stable)
NA	Term loan	October 3, 2020*	NA	March 31, 2026	5.64	[ICRA]BB (Stable)
NA	Term loan	March 31, 2022	NA	August 31, 2026	1.75	[ICRA]BB (Stable)
NA	Bank guarantee & Credit exposure limit	NA	NA	NA	2.97	[ICRA]A4

*Date of latest renewal letter; 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

ANALYST CONTACTS

Rajeshwar Burla

+91 40 4067 527

rajeshwar.burla@icraindia.com

Ashish Modani

+91 22 6114 3414

ashish.modani@icraindia.com

Ritu Goswami

+91 124 4545 826

ritu.goswami@icraindia.com

Jita Paul

+91 80 4332 6400

jita.paul@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

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

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



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.