August 08, 2023

Crystal Ceramic Industries Limited: [ICRA]BBB-(CE) (Negative)/ [ICRA]BB (Negative) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	56.00	[ICRA]BBB-(CE) (Negative); Assigned
Long-term – Non-fund Based – Bank guarantee	16.00	[ICRA]BBB-(CE) (Negative); Assigned
Long-term – Fund-based – Term loan	17.87	[ICRA]BB (Negative); Assigned
Total	**89.87**	

Rating Without Explicit Credit Enhancement*	[ICRA]BB

**Instrument details are provided in Annexure-I*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The row below the table also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The above ratings are based on the strength of the corporate guarantee provided by Asian Granito India Limited (AGL, [ICRA]BBB+ (Negative)/ [ICRA]A2), the parent of Crystal Ceramic Industries Limited (CCIL), for the rated bank facilities.

For the [ICRA]BB (Negative) rating

The ratings assigned to CCIL factors in its weak year-on-year (YoY) operating performance in FY2023, along with moderation in the credit profile of the parent entity, AGL, with which it has strong operational and financial linkages. ICRA expects CCIL's profitability to remain under pressure in the medium term in the backdrop of elevated gas prices and limited ability to fully pass on the same to the end-users. CCIL's revenue declined by 30% YoY to Rs. 188.5 crore in FY2023 predominantly due to shift from double-charged tiles (DCT) to glaze vitrified tiles (GVT). Given the inconsistent supply of gas by ONGC in FY2023, the company purchased at spot price, which led to higher cash outflow. Negative operating leverage along with input cost pressure resulted in operating loss of Rs. 24.3 crore in FY2023. While CCIL's performance is expected to improve sequentially in FY2024, the coverage metrics and return indicators are likely to remain weak in the near to medium term. AGL has infused inter corporate deposits (ICD) of Rs. 90 crore in FY2023, which was predominantly used for reduction of term loan in FY2023 (by Rs. 86.4 crore). Further, AGL has obtained shareholder approval for preferential allotment of Rs. 97 crore (Rs. 25 crore infused by promoters as on July 31, 2023) out of which Rs. 60 crore is expected to be infused in CCIL, which is likely to increase the leverage metrics going forward.

The ratings remain constrained by CCIL's average financial risk profile, characterised by modest and reduced scale of operations, operating losses in FY2023 and susceptibility of its profitability to adverse fluctuations in raw material and fuel prices. The ratings note the intense competition in the industry and the cyclicality associated with the real estate sector, which remains the key end-user for tiles.

ICRA, however, notes the demonstrated track record of operational and financial support that CCIL enjoys from its parent company, AGL, in terms of its established brand presence, wide distribution network and timely financial support in the form of ICDs. The ratings favourably factor in the committed support from AGL's management in providing timely financial assistance to CCIL, if required.

The Negative outlook on the long-term rating reflects ICRA's opinion that CCIL's credit profile will likely remain constrained, given the persisting input cost pressure, which would have an impact on the profitability as well as the stretched working capital cycle.

For the [ICRA]BBB-(CE) (Negative) rating

The ratings on the Rs. 72 crore of long-term fund and non-fund based facilities are based on the strength of the corporate guarantee provided by AGL, which holds 70% in CCIL, for the rated bank facilities. The Negative outlook on this rating reflects ICRA's outlook on the rating of the guarantor AGL.

Adequacy of credit enhancement

ICRA has assessed the attributes of the guarantee issued by AGL in favour of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional and covers the entire rated amount, tenure of the rated instrument and has a well-defined invocation though a post default payment mechanism. Given these attributes, the guarantee provided by AGL is adequately strong to result in a rating enhancement of the said instrument to [ICRA]BBB-(CE) (Negative) against the unsupported rating of [ICRA]BB. In case the rating of the guarantor undergoes a change, the same would reflect in the rating of the aforesaid facility as well. The rating of this facility may also undergo a change if, in ICRA's assessment, there is a change in the strength of the business links between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity, or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- The promoter group, AGL shall maintain management control of the borrower.
- The borrower shall not undertake or permit any scheme of arrangement or compromise with its creditors or shareholders or effect any scheme of amalgamation or reconstruction or dissolution or reconstitution including creation of any subsidiary or permit any company to become its subsidiary, without prior written permission of the bank.
- The borrower shall not declare or pay any dividend or authorise to make any distribution to its shareholders/members/partners or permit withdrawal of amounts brought, without prior written permission of the bank.
- The borrower shall not engage in any business or activities other than those which the borrower is currently engaged in, without the prior written permission of the bank.

Key rating drivers and their description

Credit strengths

Strong parentage and corporate guarantee from parent – CCIL is a subsidiary of AGL, which holds 70% stake in CCIL. At present, AGL is the fourth largest player in the domestic ceramic tiles industry and accounts for approximately ~3-4% share in the domestic market. CCIPL's credit profile is supported by the corporate guarantee provided by AGL with a defined invocation mechanism for part of the rated bank facilities.

Extensive experience of promoters and location-specific advantage – CCIL's promoters have an extensive experience in the ceramic industry, which has helped it forge a strong relationship with suppliers and customers. It benefits from its strategic location in Mehsana, Gujarat, which enables easy access to raw material and helps to save on transportation costs.

Credit challenges

Highly leveraged capital structure – The company's capital structure is highly leveraged. Given the operating losses and financial support from AGL in the form of interest-bearing ICD obligations, both leverage and coverage metrices deteriorated significantly in FY2023. AGL had given interest-bearing ICD of Rs. 90 crore in FY2023, which was predominantly used for reduction in term loan in FY2023 (by Rs. 86.4 crore). Further, AGL has obtained shareholder approval for a preferential allotment of Rs. 97 crore, out of which ~Rs. 60 crore is expected to be infused in CCIL for reducing trade payables. The company reported an outstanding bank debt of Rs. 41.7 crore, fully utilised CC of Rs. 56 crore and Rs. 135.6 crore of ICD from AGL as on March 31, 2023.

Vulnerability of profitability to fluctuations in raw material and fuel prices – CCIL's revenue declined by 30% YoY to Rs. 188.5 crore in FY2023 predominantly due to shift from DCT to GVT. It faced operating losses mainly on account of negative operating leverage and higher power and fuel costs. Considering the inconsistent supply of gas by its key vendor, the company purchased at spot price, which further drained its profitability. Raw material and fuel are the two major cost components (~65%-70%) that determines the cost competitiveness in the ceramic industry. The profitability remains susceptible to fluctuations in raw material and fuel prices, given its limited ability to pass on the rise to customers amid intense competition in the industry.

Intense competition and cyclicality in real estate industry – The ceramic tile industry is intensely competitive, with presence of large and organised players as well as numerous small-scale unorganised players, which puts pressure on CCIL's revenues and profitability. Moreover, the real estate industry remains the major end-user of the ceramic tiles. Hence, the company's revenues and cash flows remains vulnerable to cyclicality in the end-user industry.

Liquidity position:

For the [ICRA]BBB- (CE) (Negative) rating: Adequate

The liquidity position of the guarantor, AGL, is adequate. As on March 31, 2023, the company had unencumbered cash and liquid investments of around ~Rs. 12 crore (excluding ~Rs. 172 crore earmarked against capex as per the offer letter for rights issuer), which along with undrawn lines of ~Rs. 42.00 crore supports its liquidity position. It has mutual fund investments of ~Rs. 13 crore. ICRA notes that AGL does not have any material long-term debt repayment obligations and is expected to maintain adequate buffer in its working capital lines.

For the [ICRA]BB (Negative) rating: Stretched

The company's liquidity position is stretched, characterised by near full utilisation of its fund-based working capital facilities as of March 2023. The average utilisation of its CC facility of Rs. 33.8 crore stood at 85.0% for twelve months ended June 2023. The company has debt obligations of Rs. 9.3 crore in FY2024 which are expected to be serviced with the help of sponsor support.

Rating sensitivities

Positive factors – A material improvement in the guarantor's credit profile could lead to a rating upgrade.

Negative factors – Downward pressure on the ratings could arise if any significant decline in cash accruals or a significant stretch in the working capital cycle weakens the financial risk profile. Further, any deterioration in the guarantor's credit profile or weakening of the parent linkages could exert downward pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]
Parent/Group support	Parent: Asian Granito Limited (AGL) The assigned [ICRA]BBB-(CE) (Negative) rating for the Rs. 72.0-crore bank facilities is based on a corporate guarantee extended by AGL.

Analytical Approach	Comments
	ICRA expects AGL to continue to extend financial support to CCIL given the close business linkages between them and out of the need to protect its reputation from the consequences of a Group entity's distress. There also exists a consistent track record of AGL extending timely financial support to CCIL, whenever a need has arisen.
Consolidation/Standalone	Standalone

About the company

CCIL, incorporated in 2008, manufactures vitrified tiles at its facilities in Mehsana (Gujarat). It has an overall manufacturing capacity of ~11.6 million sq. mt. The company was originally engaged in the manufacturing of DCT and had shifted its product profile to GVT in FY2023. AGL holds 70% in of CCIL while its previous promoters (Mr. Bharat Kumar Patel and family) own the rest.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income (Rs. Crore)	267.6	188.5
PAT (Rs. Crore)	0.4	(42.7)
OPBDIT/OI (%)	11.6%	-12.9%
PAT/OI (%)	0.1%	-22.6%
Total outside liabilities/Tangible net worth (times)	3.4	6.2
Total debt/OPBDIT (times)	6.4	-9.0
Interest coverage (times)	1.6	-1.1

Source: ICRA Research; 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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
					Aug 08,2023	Sep 13, 2022	Jun 3, 2022	Nov 9, 2021 Oct 27, 2021
1	**Fund-based – Cash credit**	Long term	56.00	-	**[ICRA]BBB- (CE) (Negative)**	[ICRA]A+(CE) (Negative) Withdrawn	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)
2	**Non-fund based – Bank guarantee**	Long term	16.00	-	**[ICRA]BBB- (CE) (Negative)**	-	-	-
3	**Fund-based – Term loan**	Long term	17.87	17.87	**[ICRA]BB (Negative)**	[ICRA]A+(CE) (Negative) Withdrawn	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)

4	**Non-fund based – Bank guarantee & Letter of credit**	Short term rating	-	-	-	[ICRA]A1(CE) Withdrawn	[ICRA]A1(CE)	[ICRA]A1(CE)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Long-term – Non-fund Based – Bank guarantee	Very Simple
Long-term – Fund-based – Term loan	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	**Long-term – Fund-based – Cash credit**	NA	NA	NA	56.00	[ICRA]BBB-(CE) (Negative)
NA	**Long-term – Non-fund based – Bank guarantee**	NA	NA	NA	16.00	[ICRA]BBB-(CE) (Negative)
NA	**Long-term – Fund-based – Term loan**	FY2017	9.1%	FY2029	17.87	[ICRA]BB(Negative)

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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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.

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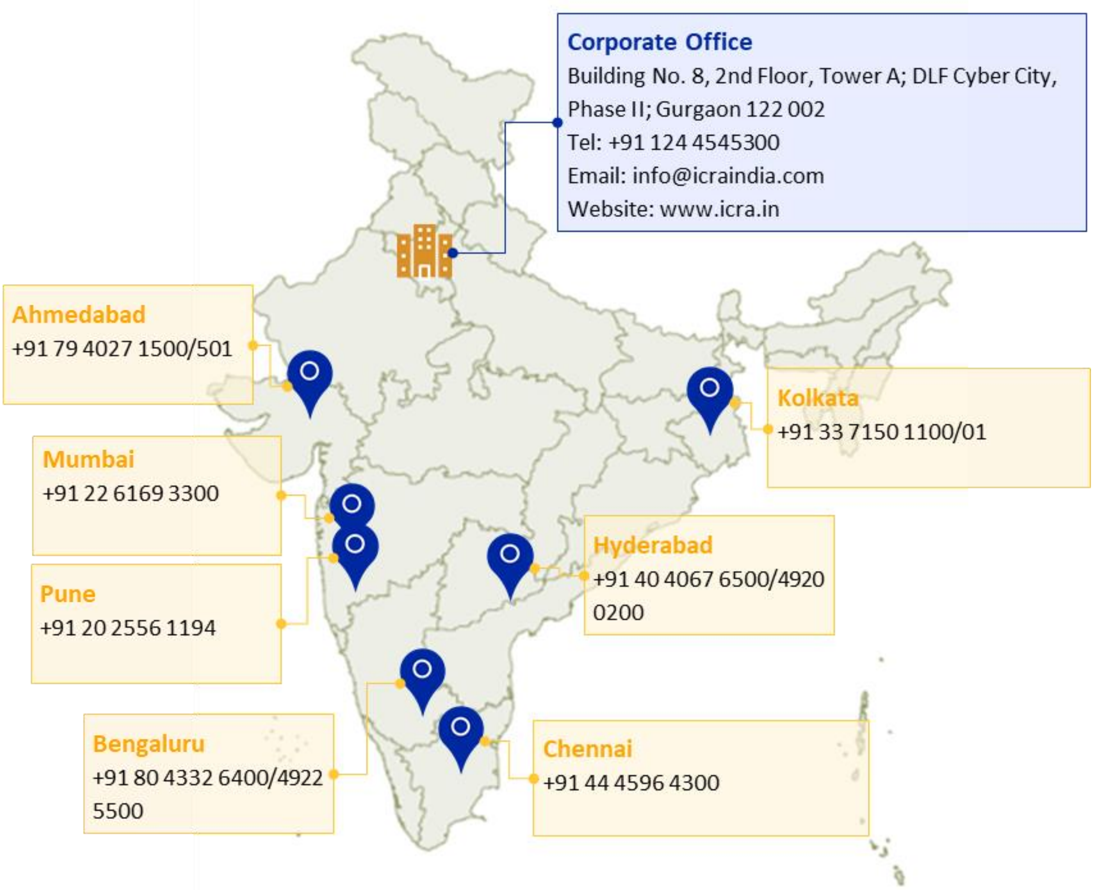

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