October 04, 2024

Sentini Cermica Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term-Fund-based-Cash credit	28.00	28.00	[ICRA]BBB-(Negative); reaffirmed
Short-term-Non-fund based-Others	2.00	2.00	[ICRA]A3; reaffirmed
Long-term and Short-term-Unallocated limits	0.50	0.00	-
Total	**30.50**	**30.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation in ratings with continuation of Negative outlook for Sentini Cermica Private Limited (SCPL) reflects ICRA's expectation that its profitability indicators and coverage metrics are likely to remain subdued in the near term, on account of higher production cost and the consequent impact on its sales and margins. SCPL has been reporting operational losses since the last three fiscals and is only expected to turn around in medium term, with focus on cost optimisation measures and improvement in operating income. The ratings, however, favourably factor in the continued support from its promoters and the likely improvement in the company's capital structure and credit profile in FY2025e with external term debt fully repaid, as of August 2024, through proceeds from the sale of land to PJL. While its operating margins in FY2025e are estimated to be supported by a lower fuel cost, a ramp-up in sales volume and its ability to report profitable operations, on a sustained basis, shall remain a key monitorable. The ratings note SCPL's working capital-intensive nature of operations and the cyclicality in the real estate industry, which is the key end-user sector for ceramic tiles. Timely financial support from the sponsor group entities remains crucial for SCPL to support its liquidity position.

ICRA favourably notes SCPL's association with H&R Johnson (India) (HRJ), which operates under Prism Johnson Limited (PJL). The ratings consider HRJ's strong brand, established market position and vast distribution network support, given the 50:50 joint venture (JV) between the Sentini Group and PJL. HRJ is the sole client of SCPL. The tiles are sold under the brand name of JOHNSON, with the entire marketing and distribution activities taken care by HRJ. SCPL's dependence on the sponsor group, especially PJL, is expected to continue going forward in case the entity's operational performance does not improve to the desired levels. The dependence is accentuated by the fact that PJL is the sole offtaker for SCPL as well the counterparty for the land parcel sold, from which ~Rs. 5 crore is yet to be realised. In case of debt-funded capex, the leverage and coverage metrics could further weaken and will be a credit negative. Going forward, the company's ability to substantially improve its profitability metrics as well as enhance its working capital lines remain crucial to ease the liquidity pressure.

Key rating drivers and their description

Credit strengths

Benefits from strong brand, market position and vast distribution network of PJL tiles division – SCPL is a 50:50 JV between PJL and the Sentini Group. It sells the tiles entirely to HRJ under the brand name of JOHNSON. HRJ looks after the marketing and distribution activities, which mitigates the offtake risk. The company benefits from HRJ's brand presence and its nationwide trade network of over 1,200 dealers, in addition to its House of Johnson chain of retail outlets and display centres.

Demonstrated track record of timely support from the promoter group – 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 in FY2023, FY2024 and 5M FY2025, the sponsor group has provided financial assistance in the form of advances and/or unsecured loans, which is expected to continue going forward.

Credit challenges

Weak coverage metrics in backdrop of operating losses; likely to remain subdued in FY2025e – The scale of operations moderated from the historical high of Rs. 139.9 crore in FY2015 to Rs. 78.4 crore in FY2024 (5M FY2025: Rs. 30.9 crore) owing to its non-remunerative cost structure. The company introduced polished porcelain floor tiles in its product portfolio from FY2023. However, offtake for the same has been limited mainly on account of higher production costs. Further, its operations are working capital intensive in nature, given the high receivables and inventory days. SCPL's high working capital requirements, elevated debt levels due to debt-funded capex towards polished porcelain floor tiles in FY2022 combined with the operating losses in FY2023 and FY2024 adversely affected its capital structure and coverage indicators. However, ICRA the external term debt has been fully repaid as of August 2024, through proceeds from sale of land to PJL, and its capital structure is likely to improve in FY2025e.

Susceptibility of profitability to volatility in raw materials and fuel prices – Raw materials (mainly clay) and fuel are the two major cost components (~80%) in tiles production, which determine the cost competitiveness of operations. SCPL has limited control over the prices of key inputs due to stiff competition, exposing its profitability to adverse raw materials and fuel price fluctuations. Fuel price, which historically has been around 30% of sales, rose to ~34% in FY2024. Additionally, the company's continued inability to pass on the price hikes fully in a timely manner, amid intense competition, resulted in losses at the operating level over the past three fiscals. While the recent cuts in statutory levies on natural gas are expected to aid SCPL in margin recovery in FY2025e, a ramp-up in sales volume and ability to turn around the operations, in a sustained manner, remains crucial for improvement in the credit profile.

Intense competition in tiles industry and vulnerability to cyclicality in end-user industry – The domestic ceramic tiles industry faces intense competition due to the presence of many organised as well as unorganised players with a wide product portfolio. Although SCPL benefits from its association with HRJ, one of the leading players in the Indian ceramic tiles industry, it faces significant competition from reputed players such as Kajaria Ceramics Limited, Somany Ceramics Limited, Asian Granito India Limited, etc. The cost competitiveness of SCPL vis-à-vis its industry competitors shall remain a key monitorable.

Liquidity position: Stretched

The liquidity remains stretched due to limited buffer in sanctioned working capital facilities, weak cash flow from operations and a low unencumbered cash balance as on August 31, 2024. Being a part of the PJL Group, the entity has been getting timely support from its promoters, which is reflected in fund infusions to the tune of ~Rs. 21 crore over the last three fiscals. While the operating performance is expected to gradually improve over medium term, continued timely financial support from sponsor group remains crucial for the entity.

Rating sensitivities

Positive factors – The outlook may be revised to Stable if the company demonstrates substantial improvement in revenues and profitability, resulting in a meaningful improvement in its coverage indicators and liquidity position.

Negative factors – The ratings may witness downward pressure if there is any decline in revenues or the company is unable to improve its profitability or liquidity position. Further, any significant debt-funded capex impacting the leverage and coverage metrics, material deterioration in the credit profile of the parent entity, any reduction in the linkages with the parent company or change in support philosophy of PJL may put pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group support	**Parent/Group Company:** Prism Johnson Limited 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	The ratings are based on the company's standalone financials

About the company

Incorporated in 2002, SCPL is a 50:50 JV between the Sentini Group and PJL. It manufactures ceramic floor tiles at Chigurukota, in Krishna district of Andhra Pradesh, and commenced production in February 2004. It has two kilns with an installed capacity of 9.12 million sq. mt. per annum. SCPL manufactures and sells ceramic floor tiles under the brand name of JOHNSON. The company has started manufacturing polished porcelain floor tiles in FY2023.

Key financial indicators (audited)

SCPL	FY2023	FY2024
Operating income (Rs. crore)	89.7	78.4
PAT (Rs. crore)	(18.9)	(16.8)
OPBDIT/OI (%)	-9.7%	-6.0%
PAT/OI (%)	-21.0%	-21.5%
Total outside liabilities/Tangible net worth (times)	1.7	2.8
Total debt/OPBDIT (times)	(4.9)	(11.0)
Interest coverage (times)	(2.0)	(0.7)

Source: Company, ICRA Research; All ratios as per ICRA's calculations;

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

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="3">Current rating (FY2025)</th><th colspan="4">Chronology of rating history for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount rated (Rs. crore)</th><th rowspan="2">October 04, 2024</th><th colspan="2">Date & rating in FY2024</th><th>Date & rating in FY2023</th><th>Date & rating in FY2022</th></tr>
<tr><th>Nov 23, 2023</th><th>May 03, 2023</th><th>Jul 29, 2022</th><th>May 28, 2021</th></tr>
<tr><td>1</td><td>Fund-based - Cash credit</td><td>Long term</td><td>28.0</td><td>[ICRA]BBB- (Negative)</td><td>[ICRA]BBB- (Negative)</td><td>[ICRA]BBB (Negative)</td><td>[ICRA]BBB+ (Negative)</td><td>[ICRA]BBB+ (Stable)</td></tr>
<tr><td>2</td><td>Non-fund based limits</td><td>Short term</td><td>2.0</td><td>[ICRA] A3</td><td>[ICRA] A3</td><td>[ICRA] A3+</td><td>[ICRA]A2</td><td>[ICRA]A2</td></tr>
<tr><td>3</td><td>Unallocated limits</td><td>Long term/short term</td><td>-</td><td>-</td><td>[ICRA]BBB- (Negative)/ [ICRA] A3</td><td>[ICRA]BBB (Negative)/ [ICRA]A3+</td><td>[ICRA]BBB+ (Negative)/ [ICRA]A2</td><td>[ICRA]BBB+ (Stable)/ [ICRA]A2</td></tr>
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Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Short-term – Non-fund based limits	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	**Fund-based cash credit**	NA	NA	NA	28.0	[ICRA]BBB-(Negative)
NA	**Non-fund based limits**	NA	NA	NA	2.0	[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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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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