

November 09, 2021

Crystal Ceramic Industries Pvt. Ltd.: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	25.00	25.00	[ICRA]A+(CE) (Stable); reaffirmed
Fund-based - Working Capital Facilities	70.00	86.00	[ICRA]A+(CE) (Stable); reaffirmed
Non-fund based - Bank Guarantee & Letter of Credit	11.00	11.00	[ICRA]A1(CE); reaffirmed
Total	106.00	122.00	

Rating Without Explicit Credit Enhancement*	[ICRA]BBB+/[ICRA]A2
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*Instrument details are provided in Annexure-1

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 last row in the table above 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), the parent of Crystal Ceramic Industries Pvt. Ltd. (CCIPL), for the rated bank facilities.

Adequacy of credit enhancement

For assigning the ratings, ICRA has assessed the attributes of the guarantee issued by AGL in favour of the said facility. While the guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenure of the rated facility, it does not have a well-defined invocation and payment mechanism. Taking cognizance of the above, ICRA has assigned a rating of [ICRA]A+(CE) (Stable)/[ICRA]A1(CE) to the said facility against the Unsupported Rating of [ICRA]BBB+/[ICRA]A2 [and in relation to the guarantor's rating of [ICRA]A+ (Stable)/[ICRA]A1]. In case the rating of the guarantor or the Unsupported Rating of CCIPL were to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility as well. The rating of this facility may also undergo a change in a scenario whereby in ICRA's assessment there is a change in the strength of the business linkages 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 authorize 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 - CCPL is a subsidiary of AGL (rated at [ICRA]A+ (Stable)/[ICRA]A1), with AGL holding 70% stake in CCPL. 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. Further, CCIPL's credit profile is enhanced by the corporate guarantee provided by AGL for the rated bank facilities.

Extensive experience of promoters and location-specific advantage - CCIPL's promoters have an extensive experience in the ceramic industry, which has helped it to forge a strong relationship with suppliers and customers. CCIPL also benefits from its access to cheaper gas from ONGC in Mehsana (Gujarat), which supports the company's profitability to an extent.

Credit challenges

Moderately leveraged capital structure and working capital intensive operations - The recently concluded debt-funded expansion moderated the CCIPL's capital structure – the gearing was 1.9 times and TOL/TNW was 2.8 times in FY2021. Its coverage metrics stood modest with Total Debt/OPBDITA at 5.8 times, interest coverage at 1.6 times and DSCR at 1.2 times in FY2021. The company's working capital intensity remained high (NWC/OI of 35% in FY2021) because of high receivables and inventory levels.

Vulnerability of profitability to fluctuations in raw material and fuel prices - Raw material and fuel are the two major cost components (~65%-70%) that determines the cost competitiveness in the ceramic industry. The company has limited control over the prices of its key inputs and 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 cyclical nature in real estate industry - The ceramic tile industry is intensely competitive, with presence of large and organised players as well as numerous small-scale unorganized players, which puts pressure on the company's revenues and profitability. Moreover, the real estate industry remains the major end-user of the ceramic tiles and hence, the company's revenues and cash flows remains vulnerable to cyclical nature in the end-user industry.

Liquidity position: Adequate

The liquidity position of the guarantor, AGL is adequate despite its cash flow from operations expected to remain negative in FY2022 due to proposed reduction of creditors, supported by the adequate cushion in working capital limits (working capital limits of ~Rs. 70 crore at a standalone level and ~Rs. 83 crore at a consolidated level remained unutilised as on June 2021). Moreover, the liquidity position is supported by ~Rs. 47 crore from stake divestment in an associate concern in August 2021 and ~Rs. 225 crore of fund raised through right issue in October 2021.

Rating sensitivities

Positive factors - Any 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 any large debt-funded capex or a significant stretch in the working capital cycle weakens the financial risk profile. Furthermore, any deterioration in the Guarantor's credit profile or weakening of the parent linkages could also lead to a downward pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach - Explicit third-party support
Parent/Group Support	The rating is based on the strength of the corporate guarantee provided by AGL, the parent of CCIPL, for the rated bank facilities.
Consolidation/Standalone	The ratings are based on the standalone financials of CCIPL.

About the company

Incorporated in 2008, Crystal Ceramic Industries Pvt. Ltd. manufactures vitrified tiles at its facilities in Mehsana (Gujarat). Its product range comprises double charged vitrified tiles, polished glazed vitrified tiles and glazed vitrified tiles, and has an overall manufacturing capacity of ~9.9 million sq. mt. at present. CCIPL is a subsidiary of AGL, with AGL holding 70% stake in CCIPL, while its previous promoters (Mr. Bharat Kumar Patel and family) own the rest.

In FY2021, the company reported a net profit of Rs. 4.9 crore on an operating income of Rs. 182.9 crore, as compared to a net profit of Rs. 3.5 crore on an operating income of Rs. 196.7 crore in FY2020.

Key financial indicators (audited)

Standalone	FY2020	FY2021
Operating Income (Rs. crore)	196.7	182.9
PAT (Rs. crore)	3.5	4.9
OPBDIT/OI (%)	14.2%	17.0%
PAT/OI (%)	1.8%	2.7%
Total Outside Liabilities/Tangible Net Worth (times)	2.7	2.7
Total Debt/OPBDIT (times)	5.7	4.8
Interest Coverage (times)	1.7	1.7

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 (FY2022)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2021 (Rs. crore)	Date & Rating in Nov 9, 2021 Oct 27, 2021	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					Mar 23, 2021	Jun 8, 2020	Jan 6, 2020	Dec 5, 2018	
1 Term Loan	Long-term	25.00	24.97	[ICRA]A+(CE) (Stable)	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Negative)	[ICRA]A(CE) (Stable)	[ICRA]A(SO) (Negative)	
2 Working Capital Facilities	Long-term	86.00	NA	[ICRA]A+(CE) (Stable)	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Negative)	[ICRA]A(CE) (Stable)	[ICRA]A(SO) (Negative)	
3 Bank Guarantee & Letter of Credit	Short-term	11.00	NA	[ICRA]A1(CE)	[ICRA]A1(CE)	[ICRA]A1(CE)	[ICRA]A1(CE)	[ICRA]A1(SO)	

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Term Loan	Simple
Long-term - Working Capital Facilities	Simple
Short-term - Bank Guarantee & Letter of Credit	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Punjab National Bank	Term Loan	FY2017	8.1%-11%	FY2024	25.00	[ICRA]A+(CE) (Stable)
Punjab National Bank	Working Capital Facility	NA	NA	NA	30.00	[ICRA]A+(CE) (Stable)
Axis Bank	Working Capital Facility	NA	NA	NA	20.00	[ICRA]A+(CE) (Stable)
SBM Bank	Working Capital Facility	NA	NA	NA	20.00	[ICRA]A+(CE) (Stable)
IDFC Bank	Working Capital Facility	NA	NA	NA	16.00	[ICRA]A+(CE) (Stable)
Punjab National Bank	Bank Guarantee & Letter of Credit	NA	NA	NA	11.00	[ICRA]A1(CE)

Source: Crystal Ceramic Industries Pvt. Ltd.

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

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