September 13, 2022

Amazoone Ceramics Ltd.: Ratings downgraded to [ICRA]BBB/[ICRA]A3+; outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working capital facilities	4.00	4.00	[ICRA]BBB; downgraded from [ICRA]BBB+ and outlook revised to Negative from Stable
Non-fund based - Bank guarantee & Letter of credit	3.00	3.00	[ICRA]A3+; downgraded from [ICRA]A2
Total	**7.00**	**7.00**	

**Instrument details are provided in Annexure I*

Rationale

The downgrade in the ratings of Amazoone Ceramics Ltd. (ACL) factors in the weakening in the financial performance during FY2022 and the expected moderation in the scale and profitability during FY2023. The revision of the Outlook to Negative from Stable reflects that the credit profile of ACL is expected to remain under pressure given the input cost pressure and the ongoing capex, which will curtail the scale in the current fiscal. The ratings also factor in the expected moderation in the financial performance of the parent entity, Asian Granito India Limited (AGL, rated [ICRA]A+ (Negative)/[ICRA]A1) with which it has strong operational and financial linkages. While AGL's capital structure has improved (at a consolidated level) with a fund raising of ~Rs. 225 crore and ~Rs. 440 crore through rights issues in October 2021 and May 2022 respectively, its overall financial performance remained impacted with moderation in profitability during FY2022 and Q1 FY2023. Likely moderation in debt coverage at a consolidated level in the medium term is a possible fallout. The ratings also remain constrained by ACL's modest scale of operations, its average financial risk profile and susceptibility of its profitability to adverse fluctuations in raw material and fuel prices. The ratings factor in the intense industry competition and the cyclicality associated with the real estate sector, which remains the key end-user of the tiles.

ICRA, however, notes that there has been a demonstrated track record of operational and financial support that ACL enjoys from its parent company, AGL in terms of its established brand presence, wide distribution network and financial support in the form of equity infusion, loans and advances.

Key rating drivers and their description

Credit strengths

Strong parentage - ACL is a subsidiary of AGL (rated at [ICRA]A+ (Negative)/[ICRA]A1), with AGL holding 97.77% stake in ACL (increased from 95.32% as on FY2021-end). At present, AGL is the fourth largest player in the domestic ceramic tiles industry and accounts for approximately ~3-4% of share in the domestic market. Further, AGL has a track record of extending financial support to ACL in the form of loans and advances.

Extensive experience of promoters and location-specific advantage - ACL's promoters have extensive experience in the ceramic industry, which has helped it forge a strong relationship with the suppliers and customers. ACL also benefits from its strategic location in Dalpur (Himmatnagar, Gujarat), which enables easy access to raw material and also helps save on the transportation cost.

Credit challenges

Average financial risk profile - ACL's financial risk profile remains average, with an operating income of Rs. 79 crore in FY2022 (moderating from Rs. 139 crore in FY2021). Its operating and net profitability were moderate at 4.8% and 2.6%, respectively, in FY2022. ICRA notes that ACL's financial performance is expected to moderate significantly during FY2023 in the backdrop of input cost pressure and ongoing capex, which will curtail the scale in the current fiscal. While the company's capital structure and coverage indicators were modest with TOL/TNW at 0.5 times, Total Debt/OPBDITA at 2.4 times and interest coverage at 3.9 times at a standalone level in FY2022, ICRA notes that ACL's subsidiary, Gresart Ceramics Pvt Ltd is undertaking a debt-funded capex towards greenfield wall tiles plant in FY2023, This, amid moderate profitability levels, will result in moderate coverage indicators in the medium term.

Vulnerability of profitability to fluctuations in raw material and fuel prices - Raw material and fuel are the two major cost components (~70%) that determine 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 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 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 remain vulnerable to cyclicality in the end-user industry.

Liquidity position: Adequate

The liquidity position is adequate, given its track record of receiving financial support from its parent, AGL in the form of equity infusion, loans and advances in the past, thus, support its liquidity profile. Nonetheless, ICRA notes that any significant demand from the Income-Tax department, on account of the recent search and seizure operation, which impacts the liquidity position, would remain a key monitorable.

Rating sensitivities

Positive factors - The outlook on the ratings can be revised to Stable with significant improvement in scale and profitability, leading to higher-than-expected cash accruals on a sustained basis. This, along with an improvement in the parent's credit profile, could also 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 any further stretch in the working capital cycle weakens the liquidity position of the company. Furthermore, any deterioration in the parent'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 Implicit parent or group support
Parent/Group Support	While arriving at the ratings, ICRA has taken the implicit support of parent, AGL.
Consolidation/Standalone	The ratings are based on the standalone financials of ACL.

About the company

Incorporated in 2003, Amazoone Ceramics Ltd. manufactures porcelain tiles at its facility in Dalpur (Himmatnagar, Gujarat). It has an overall manufacturing capacity of ~2.4 million sq. mt. at present. ACL is a subsidiary of AGL, with AGL holding 97.77% stake in ACL.

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income (Rs. crore)	138.9	79.0
PAT (Rs. crore)	3.3	2.1
OPBDIT/OI (%)	4.6%	4.8%
PAT/OI (%)	2.4%	2.6%
Total outside liabilities/Tangible net worth (times)	1.8	0.5
Total debt/OPBDIT (times)	4.0	2.4
Interest coverage (times)	5.9	3.9

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 (FY2023)					Chronology of Rating History for the Past 3 Years		
		Type	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
					Sep 13, 2022	Jun 3, 2022	Oct 27, 2021	Mar 23, 2021	Jan 6, 2020
1	**Working capital facilities**	Long-term	4.00	NA	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2	**Bank guarantee & Letter of credit**	Short-term	3.00	NA	[ICRA]A3+	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
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 are available on ICRA's website: www.icra.in

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**	NA	NA	NA	4.00	[ICRA]BBB (Negative)
NA	**Bank guarantee & Letter of credit**	NA	NA	NA	3.00	[ICRA]A3+

Source: Amazoone Ceramics Ltd

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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