

May 30, 2024

Leviton Ceramic LLP: Ratings reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|--------------------------------------|-------------------------------------|------------------------------|
| Long-term – Fund-based – Term loan | 10.75 | 10.75 | [ICRA]BB-(Stable) reaffirmed |
| Long-term – Fund-based – Working capital facilities | 5.00 | 5.00 | [ICRA]BB-(Stable) reaffirmed |
| Short-term – Non-fund based – Bank guarantee | 4.00 | 4.00 | [ICRA]A4 reaffirmed |
| Total | 19.75 | 19.75 | |

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings for Leviton Ceramic LLP (LCL) reflects its average financial risk profile, characterised by a relatively modest scale of operations, thin (and volatile) profitability margins and stretched liquidity position. LCL's net worth base remains modest due to periodic capital withdrawals by partners. The ratings factor in the intense competition in the ceramic industry and the exposure of its profitability to volatility in raw material and fuel prices. The firm's operations and cash flows are exposed to the cyclical nature in the real estate industry, which is the key end-user sector. ICRA notes the capital withdrawal risk, given its constitution as a limited liability partnership.

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

The Stable outlook on the rating reflects ICRA's expectation that LCL will sustain its operating metrics commensurate with the rating level.

Key rating drivers and their description

Credit strengths

Adequate experience of partners in ceramic industry – The partners of the firm have more than five years of experience in the ceramic industry vide their association with other entities in the ceramic business.

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.

Credit challenges

Average financial risk profile – The firm has modest scale of operations with an operating income (OI) of Rs. 55.5 crore in FY2024 (provisional results). While the operating profit margins improved marginally to 7.2% in FY2024, mainly on account of moderation in natural gas prices, the same continue to remain thin and volatile. The firm's overall capital structure remains leveraged owing to its small net worth and periodic capital withdrawals by the partners. It has an elongated working capital cycle and stretched liquidity due to long receivable period. Given the limited buffer in fund-based limits, the firm is dependent on extended credit period from its suppliers/vendors to support its cash flows.

Vulnerability of profitability to fluctuations in raw material and fuel prices, competition, and cyclicity in real estate industry – Raw material and fuel are the two major components that determine the cost competitiveness in the ceramic industry. The firm has, however, little control over the prices of its key inputs such as natural gas and raw materials. Thus, the profit margins remain exposed to adverse movement in their prices. Further, the ceramic tile manufacturing industry is highly competitive due to 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. Additionally, LCL's profitability and cash flows remain vulnerable to the cyclicity in the real estate industry, which is the key end user of ceramic tiles.

Risk inherent in partnership firm – LCL's 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

LCL's liquidity position is expected to remain stretched, given its working capital-intensive operations and limited cushion in working capital limits (average utilisation of WC limits remained high at 96% for 12 months ending March 2024). The firm's cash accruals are expected to remain tightly matched against its debt repayment obligations of ~Rs. 3.46 crore in FY2025 (including unsecured debt of ~Rs. 1.2 crore). Timely enhancement in working capital limits and need-based infusion of equity or unsecured loans from the promoters will remain crucial to mitigate any cash flow mismatch.

Rating sensitivities

Positive factors – ICRA could upgrade LCL's ratings if the firm demonstrates a substantial improvement in profitability on a sustained basis. Moreover, an improvement in net worth and liquidity profile could lead to a rating upgrade.

Negative factors – Negative pressure on LCL's ratings could arise if any material decline in revenue and profitability and/or capital withdrawal results in inadequate cash accruals, thereby weakening its 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 statements |

About the company

Morbi-based LCL, established in October 2017, is a partnership firm promoted by Mr. Suraj Padsumbiya, Mr. Jayesh Rangpariya, Mr. Rohit Padsumbiya and other family members. LCL commenced operation from May 2018 and manufactures digital glazed wall tiles. The firm has an installed capacity to manufacture 74,00,000 boxes annually (varies depending on the size configuration).

Key financial indicators (audited)

| LCL – Standalone | FY2023 | FY2024* |
|--|--------|---------|
| Operating income (Rs. crore) | 56.5 | 55.5 |
| PAT (Rs. crore) | 0.7 | 2.4 |
| OPBDIT/OI (%) | 5.6% | 7.2% |
| PAT/OI (%) | 1.3% | 4.3% |
| Total outside liabilities/Tangible net worth (times) | 2.2 | 1.5 |
| Total debt/OPBDIT (times) | 3.9 | 2.5 |
| Interest coverage (times) | 2.6 | 4.5 |

Source: LCL, ICRA Research; *Provisional numbers; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Note - All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Type | Current rating (FY2025) | | Chronology of rating history for the past 3 years | | | |
|---|------------|--------------------------|---|---|-------------------------|-------------------------|-------------------------|
| | | Amount rated (Rs. crore) | Amount outstanding as on March 31, 2024 (Rs. crore) | Date & rating in FY2025 | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 |
| | | | | May 30, 2024 | - | Mar 20, 2023 | Jan 31, 2022 |
| 1 Fund-based – Term loan | Long term | 10.75 | 1.30 | [ICRA]BB-(Stable) | - | [ICRA]BB-(Stable) | [ICRA]BB-(Stable) |
| 2 Fund-based – Working capital facilities | Long term | 5.00 | -- | [ICRA]BB-(Stable) | - | [ICRA]BB-(Stable) | [ICRA]BB-(Stable) |
| 3 Non-fund based – Bank guarantee | Short term | 4.00 | -- | [ICRA]A4 | - | [ICRA]A4 | [ICRA]A4 |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|----------------------|
| Long-term – Fund-based – Term loan | Simple |
| Long-term – Fund-based – Working capital facilities | Simple |
| Short-term – Non-fund based – Bank guarantee | 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 | Long-term – Fund-based – Term loan | FY2018 | - | FY2026 | 10.75 | [ICRA]BB- (Stable) |
| NA | Long-term – Fund-based – Working capital facilities | NA | - | NA | 5.00 | [ICRA]BB- (Stable) |
| NA | Short-term – Non-fund based – Bank guarantee | NA | - | NA | 4.00 | [ICRA]A4 |

Source: LCL

[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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