

September 27, 2017

Spinel Microns

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based Limits – Cash Credit	5.00	[ICRA]B(Stable); Assigned
Fund-based Limits – Term Loan	5.40	[ICRA]B(Stable); Assigned
Non-fund Based Limits – Bank Guarantee	0.70	[ICRA]A4; Assigned
Total	11.10	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]B (pronounced ICRA B)¹ to the Rs. 5.00 crore² fund-based cash credit facility and the Rs. 5.40 crore fund-based term loan facility of Spinel Microns (SM). ICRA has also assigned a short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 0.70 crore non-fund based bank guarantee facility of SM. The outlook on the long-term rating is Stable.

Rationale

The assigned ratings favourably factor in the experience of the key promoters in the ceramic tile manufacturing business as well as in the trading of ceramic raw materials through their association with other entities involved in the ceramic industry. The ratings also take into account the location advantage enjoyed by the firm, which ensures easy access to Morbi-based customers.

However, the assigned ratings are constrained by the lack of track record of the firm and exposure to project execution and implementation risks associated with stabilisation of the plant as per the expected operating parameters. Furthermore, the assigned rating also takes into account the firm's financial profile, which is expected to remain stretched in the near to medium term, given the debt-funded nature of the project and the impending debt repayments. The ratings are also constrained by the vulnerability of its profitability to the cyclical nature associated with the real estate industry and to the adverse movements in key input material prices.

Key rating drivers

Credit strengths

- **Experience of key promoters in the ceramic industry as well as trading of ceramic raw material** - SM was established in July 2016 and promoted by Mr. Kantilal Desai, Mr. Naresh Zalariya and Mr. Ketal Patel along with four other partners, who are also family members. The promoters have long experience of a decade in the ceramic industry and trading of ceramic raw materials through their association with other entities engaged in the sector.
- **Favourable location providing easy access to prospective clients** – The manufacturing facility of the firm is located in Maliya, Gujarat, which is near Morbi (Gujarat), India's ceramic hub with more than 600 players. This ensures easy access to customers, as the firm manufactures the major raw materials that find application in the production of ceramic tiles.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Credit weaknesses

- **Lack of track record of operations and exposure to execution and implementation risks associated with a Greenfield project** – The firm estimates to commence its trial runs and commercial production from October 2017. The firm's ability to timely commence and stabilise operations within the estimated cost will remain a key sensitivity factor.
- **Financial profile expected to remain stretched in the near term** – High reliance on debt funding for the project and its associated servicing burden are expected to keep the firm's credit metrics stretched over the near to medium term.
- **Vulnerability of profitability to cyclicity inherent in the real estate industry and towards adverse movements in key input material prices** - The real estate industry is the main consuming sector, so post commencement of operations, SM's profitability and cash flows are expected to remain vulnerable to the cyclicity of the real estate industry as well as adverse movements in key input material prices.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Spinel Microns (SM) was established on July 19, 2016 as a partnership firm with the objective of setting up a Greenfield project for manufacturing feldspar powder, which is one of the major raw materials used in manufacturing ceramic and vitrified tiles. The firm set up its manufacturing facility with an annual processing capacity of 1,80,000 metric tonnes of feldspar powder at Maliya district in Gujarat. The firm proposes to produce 50-70 microns of feldspar powder, which find application in the tile industry. The firm estimates to commence its trial runs and commercial operations from October 2017.

The firm is promoted and managed by Mr. Mr. Kantilal Patel, Mr. Naresh Zalariya and Mr. Ketal Patel along with four other family members. The promoters of the firm have long experience in the ceramic tile industry and in the trading of ceramic raw materials through their association with other entities in the sector.

The total cost of the project is estimated at Rs. 9.90 crore, which is funded through a term loan of Rs. 5.40 crore, unsecured loans of Rs. 0.90 crore from promoters and partner's capital of Rs. 3.60 crore. The project has a moderate debt-equity ratio of 1.75:1. The firm incurred capital expenditure to the tune of Rs. 5.78 crore towards capital goods as on September 20, 2017, and the same is funded through term loans, unsecured loans and partner's capital. The project is expected to start commercial operations from October 2017. The firm has sizeable repayments falling due in the near to medium term and hence timely execution of the project and achievement of optimum capacity utilisation levels will be crucial to ensure timely servicing.

The first disbursement of term loan was received on September 01, 2017, and its repayment will commence from June 2018, providing a cushion of about nine months to the firm. However, the future cash flow adequacy of the firm would be sensitive to its ability to successfully market its product and thereby ramp up its operations.

Key Financial Indicators (Audited) - Not Applicable

	FY2017
Operating Income (Rs. crore)	N.A.
PAT (Rs. crore)	N.A.
OPBDIT/ OI (%)	N.A.
RoCE (%)	N.A.
	N.A.
Total Debt/ TNW (times)	N.A.
Total Debt/ OPBDIT (times)	N.A.
Interest coverage (times)	N.A.
NWC/ OI (%)	N.A.

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
									September-17
1	Cash Credit Limits	Long Term	5.00	-	[ICRA]B (Stable)	-	-	-	
2	Term Loan Limits	Long Term	5.40	-	[ICRA]B (Stable)	-	-	-	
3	Bank Guarantee	Short Term	0.70	-	[ICRA]A4	-	-	-	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

**Annexure-1
Instrument Details**

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Cash Credit Limits	-	-	-	5.00	[ICRA]B (Stable)
Term Loan Limits	September 2017	-	May 2025	5.40	[ICRA]B (Stable)
Bank Guarantee	-	-	-	0.70	[ICRA]A4

Source: SM

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