

Notto Granito LLP

January 30, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loan	-	26.00	[ICRA]B (Stable); Assigned
Fund-based – Cash Credit*	-	8.00	[ICRA]B (Stable) ; Assigned
Non-fund Based – Bank Guarantee	-	2.50	[ICRA]A4; Assigned
Total	-	36.50	

*Sublimit of Rs. 4.00 crore against Book-debts

Rating action

ICRA has assigned the long-term rating of [ICRA]B (pronounced ICRA B) for the Rs. 26.00-crore¹ term loan and the Rs. 8.00-crore cash credit facility of Notto Granito LLP (NGL or the firm)². ICRA has also assigned the short-term rating of [ICRA]A4 (pronounced ICRA A four) for the Rs. 2.50-crore non-fund based bank guarantee of NGL. The outlook on the long-term rating is Stable.

Rationale

The assigned ratings favourably factor in the experience of NGL's promoters in the ceramic industry, the benefits derived from its associate concern's marketing and distribution network and the location-specific advantage, which ensures an easy availability of raw materials.

However, the assigned ratings are constrained by the nascent stage of the firm's operations, as it is still in the project stage and the risks associated with the stabilisation of the plant, as per the expected operating parameters. The ratings also remain constrained by the highly fragmented nature of the ceramic tiles industry resulting in intense competition. Furthermore, the ratings also take note of the cyclical nature of the real estate industry which is the main consuming sector and the exposure of the firm's profitability to volatility in raw material and gas prices. The assigned ratings also take into account NGL's financial profile, which is likely to remain weak in the near term, given the debt-funded nature of the project (debt to equity ratio of 1.91 times) and impending debt repayment obligations.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes that NGL will continue to benefit from the vast experience of its promoters and the distribution network of its associate concerns. The outlook may be revised to Positive with the timely commissioning of operations within the estimated cost and if the firm is able to establish a market for its products, scale up operations in a profitable manner and maintain a healthy financial risk profile. The outlook may be revised to Negative if cash accruals are lower than expected, or a delay in debt repayments or a stretch in working capital cycle, weakens the liquidity position of the firm.

Key rating drivers

Credit strengths

Experience of promoters in the ceramic industry – The key promoters of the firm have an experience of more than seven years in the ceramic industry vide their association with other ceramic entities that operate in the same business sector. NGL also derives support from the marketing and distribution network of its associate concerns.

Favourable location for raw material – The manufacturing facility of the firm is located in the ceramic tiles manufacturing hub of Morbi (Gujarat), which provides easy access to quality raw materials and allows savings on the transportation cost.

Credit challenges

Risks associated with stabilisation and successful scale up of operations – Being in a nascent stage, with the operations yet to be commissioned (expected from April, 2018), the firm remains exposed to the risks associated with stabilisation and successful scale up of operations of the plant, as per the expected parameters. Moreover, the debt repayments, coupled with the long gestation period are likely to keep the credit profile constrained over the near term. The timely commissioning of operations without any significant cost overruns would remain a key rating sensitivity.

Intense competition in the ceramic industry – The firm faces stiff competition from established tile manufacturers as well as unorganised players which limits its pricing flexibility.

Vulnerability of profitability and cash flows to cyclicalities inherent in the real estate industry – The real estate industry is the key end-user for vitrified tiles. Hence, the profitability and cash flows are likely to remain vulnerable to the inherent cyclicalities of the real estate industry.

Vulnerability of profitability to any adverse fluctuations in raw material and fuel prices – The margins of the firm are primarily affected by the raw material price and piped natural gas/coal price fluctuation. Any adverse movement in the prices of raw materials and fuel could have an adverse impact on NGL's margins, considering the limited ability to pass on the price hike owing to intense competition in the ceramic industry. The price fluctuations also impact the realisations of the firm.

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 firm:

NGL was incorporated in July, 2017, as a limited liability partnership firm promoted by Mr. Vishal Ghodasara and 12 other partners. The firm is setting up a greenfield project at Morbi in Gujarat to manufacture glazed vitrified tiles. The unit has an estimated installed capacity of producing 72000 metric tonne of vitrified tiles per annum. The firm proposes to commence operations at its new plant from April, 2018.

Key financial indicators (Audited): Since Notto Granito LLP is at the project stage, key financial indicators of the firm are not available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2018)		Date & Rating January 2018	Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
Term Loan	Long Term	26.00		[ICRA]B (Stable)	-	-	-
Cash Credit*	Long Term	8.00		[ICRA]B (Stable)	-	-	-
Bank Guarantee	Short Term	2.50		[ICRA]A4	-	-	-

*Sublimit of Rs. 4.00 crore against Book-debts

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2019	NA	FY2025	26.00	[ICRA]B (Stable)
NA	Cash Credit*	NA	NA	NA	8.00	[ICRA]B (Stable)
NA	Bank Guarantee	NA	NA	NA	2.50	[ICRA]A4

*Sublimit of Rs. 4.00 crore against Book-debts

Source: Notto Granito LLP

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About ICRA Limited:

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