

Legend Ceramic Private Limited

March 29, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	8.75	8.75	[ICRA]B+ (Stable); Reaffirmed
Fund-based Cash Credit	4.00	4.00	[ICRA]B+ (Stable); Reaffirmed
Non-fund Based Bank Guarantee	1.00	1.00	[ICRA]A4; Reaffirmed
Total	13.75	13.75	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B+ (pronounced ICRA B plus) assigned to the Rs. 8.75-crore¹ term loan and Rs. 4.00-crore cash credit limit of Legend Ceramic Private Limited (LCPL)². ICRA has also reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) assigned to the Rs. 1.00-crore non-fund based limits of LCPL. The outlook on the long-term rating is Stable.

Rationale

The ratings reaffirmation factors in the company's modest scale of operations and LCPL's average financial risk profile characterised by low profitability, moderate capital structure and modest coverage indicators. Furthermore, the ratings factor in the highly fragmented nature of the tiles industry resulting in intense competition. The ratings are also constrained by the cyclical nature of the real-estate industry, which is the main end-user sector and the exposure of LCPL's profitability to volatility in raw material and gas prices.

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

Outlook: Stable

ICRA believes LCPL will continue to benefit from the extensive experience of its promoters. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major debt-funded capital expenditure, or stretch in the working capital cycle, weakens liquidity.

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

Key rating drivers

Credit strengths

Extensive experience of the management in the ceramic industry - The promoters have an extensive experience of close to a decade in the ceramic industry vide their association with other companies in the ceramic industry.

Location-specific advantage - The manufacturing facility of the company is located in the ceramic tiles manufacturing hub of Morbi (Gujarat), which provides easy access to quality raw materials like body clay, feldspar and glazed frit in Gujarat and Rajasthan.

Credit challenges

Average financial risk profile - The financial profile of the company remains average as reflected by its small scale of operations, low profitability levels, weak coverage indicators and high working capital intensive operations. It reported an operating income (OI) of Rs. 31.79 crore and a net profit of Rs. 0.31 crore in FY2017. The coverage indicators remained modest with the interest coverage ratio of 2.28 times and the total debt/OPBDITA of 3.67 times in FY2017. The working capital intensity remained high with a NWC/OI of 22% in FY2017.

Margins subject to pressure from intense competition and cyclicity in the real-estate industry - The tile manufacturing industry remains highly fragmented with competition from the organised and unorganised segments, apart from imports. The large number of players in the unorganised segment, with most of them located in Gujarat and operating on low-cost structures, creates a pressure on the prices. Moreover, the demand for tiles remains exposed to the cyclicity in the real-estate sector, which at present, is in a downward trend.

Profitability susceptible to volatility in raw material and fuel prices - Despite the locational advantage for raw material procurement, the company has limited control over the prices of other key inputs such as natural gas/coal, and thus its margins remain exposed to any adverse movement in gas/coal 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:

Incorporated in July 2011, Legend Ceramic Private Limited (LCPL) commenced commercial production in June 2012 with its product portfolio comprising of ceramic floor tiles of a single size 16"x16". In April 2013, the company incorporated digitally printed tiles to its portfolio. LCPL is promoted by Mr. Dharmendra Aghara along with his relatives. The promoters have a long standing experience in the ceramic tiles industry by the virtue of their association with other ceramic products oriented firms.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	29.69	31.79
PAT (Rs. crore)	0.28	0.31
OPBDIT/ OI (%)	10.16%	7.89%
Total Debt/ TNW (times)	2.02	1.70
Total Debt/ OPBDIT (times)	3.40	3.67
Interest Coverage (times)	2.23	2.28
NWC/ OI (%)	25%	22%

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2017	Date & Rating in FY2015	
				March	April 2017	May 2016	July 2015	
1 Term Loan	Long Term	8.75	2.58 [^]	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B	[ICRA]B	
2 Cash Credit	Long Term	4.00	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B	[ICRA]B	
3 Letter of Credit	Short Term	1.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	

[^]As on March 31, 2017

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

ISI No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2013	NA	FY2019	8.75	[ICRA]B+ (Stable)
NA	Cash Credit	-	NA	NA	4.00	[ICRA]B+ (Stable)
NA	Bank Guarantee	-	NA	NA	1.00	[ICRA]A4

Source: Legend Ceramic Private Limited

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