

Airona Tiles Limited

June 06, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	9.47	9.47	[ICRA]BB- (Stable); reaffirmed
Term Loan	1.50	1.50	[ICRA]BB- (Stable); reaffirmed
Bank Guarantee	2.27	2.27	[ICRA]A4; reaffirmed
Total	13.24	13.24	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB- (pronounced ICRA double B minus) for the Rs. 10.97-crore¹ fund-based bank facilities of Airona Tiles Limited (ATL or the company)². ICRA has also reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) for the Rs. 2.27-crore non-fund based bank facilities of ATL. The outlook on the long-term is Stable.

Rationale

The rating reaffirmation reflects ATL's modest scale of operations; the decline in the operating income in the last two fiscals and its moderate financial risk profile, which is marked by moderate profitability, leveraged capital structure and moderate debt-coverage indicators. The ratings are further constrained by the high working capital intensity of its operations because of elongated receivables cycle and high inventory holdings. The ratings also take into account the highly fragmented nature of the tiles industry, which results in intense competitive pressure; the cyclical nature of the real estate industry, which is the main consuming sector; and the exposure of the company's profitability to fluctuations in raw material and fuel (natural gas) prices.

The ratings, however, favourably factors in the extensive experience of the promoters in the ceramic industry by virtue of their earlier association with City Tiles Limited, which is engaged in the same business; and the proximity of its unit to Sabarkantha (Gujarat), resulting in easy procurement of quality raw material.

Outlook: Stable

ICRA expects ATL to continue to benefit from the extensive experience of its promoters in the ceramic industry. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management strengthen 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 promoters in ceramic industry - ATL was incorporated by Mr. Prafulkumar Patel, Mr. Prakashkumar Patel and Mr. Jashubhai Patel to acquire the ceramic division of City Tiles Limited after its demerger. The promoters have extensive experience in the ceramic industry as they were earlier handling the ceramic division of City Tiles Limited, which was incorporated in 2002.

Locational advantage - The company benefits in terms of lower transportation costs and easy access to quality raw material due to its proximity to raw material suppliers.

Credit challenges

Modest scale of operations amid intense competition - The company has a modest scale of operations. Its operating income declined ~9% to Rs. 40.01 crore in FY2017 from Rs. 44.16 crore in FY2016 and further ~5% to Rs. 38.03 crore in FY2018. The stiff competition from other organised as well as unorganised players in the tile manufacturing industry limits the company's pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins.

Moderate financial risk profile - The capital structure stood leveraged with a gearing of 1.33 times and TOL/ TNW of 2.23 times as on March 31, 2018, owing to high debt and relatively low net worth base. The debt-coverage indicators also stood moderate—the interest coverage was 1.76 times and Total Debt/ OPBDITA was 2.85 times in FY2017.

Working capital intensive operations - The company's working capital intensity is high because of elongated receivables cycle and high inventory holdings. The same increased to 43% in FY2017 from 35% in FY2016 primarily because of increase in debtor and inventory position.

Vulnerability of profitability to fluctuations in raw material and fuel prices - The sales price of the company's product is significantly affected by raw material and fuel (natural gas) price fluctuations, which in turn affect its profit margins.

Vulnerability of profitability and cash flows to cyclicalities inherent in real estate industry - The real estate industry is the main end user of tiles, and hence, the demand for tiles is exposed to the cyclicalities of the realty sector.

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:

ATL was incorporated in 2014 to acquire the operations of the ceramic division of City Tiles Limited after its demerger. It commenced its commercial operations on April 01, 2015, and manufactures ceramic floor tiles in different sizes viz. 400 mm X 400 mm, 600 mm X 600 mm and 600 mm X 900 mm. Its manufacturing facility is located at Sabarkantha (Gujarat) and has ~18,60,000 square metre floor tiles per annum capacity. It sells the tiles under the brand name 'Signova'.

In FY2017, the firm reported a net profit of Rs. 1.92 crore on an OI of Rs. 40.01 crore, as compared to a net profit of Rs. 1.39 crore on an OI of Rs. 44.16 crore in the previous year.

Key financial indicators

	FY2016	FY2017
Operating Income (Rs. crore)	44.16	40.01
PAT (Rs. crore)	1.39	1.92
OPBDIT/ OI (%)	11.15%	13.15%
RoCE (%)	-	19.82%
Total Debt/ TNW (times)	1.39	1.33
Total Debt/ OPBDIT (times)	2.72	2.85
Interest Coverage (times)	1.78	1.76

Source: ATL's financials and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					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 FY2016	Date & Rating in FY2015
1 Cash Credit	Long Term	9.47	-	Jun 2018 [ICRA]BB-(Stable)	Dec 2016 [ICRA]BB-(Stable)	-	-
2 Term Loan	Long Term	1.50	1.20	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-
3 Bank Guarantee	Short Term	2.27	-	[ICRA]A4	[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	9.47	[ICRA]BB- (Stable)
NA	Term Loan	FY2017	NA	FY2021	1.50	[ICRA]BB- (Stable)
NA	Bank Guarantee	NA	NA	NA	2.27	[ICRA]A4

Source: Airona Tiles Limited

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