

Oscar Ceramics

April 05, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	1.66	1.66	[ICRA]BB- (Stable); Reaffirmed
Fund-based Cash Credit	4.00	4.00	[ICRA]BB- (Stable); Reaffirmed
Non-fund Based Bank Guarantee	1.60	1.60	[ICRA]A4; Reaffirmed
Total	7.26	7.26	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation continues to remain constrained by the firm's average financial risk profile, characterised by moderate scale, reduction in operating profitability, average coverage indicators and high working capital intensity. The ratings also factor in the intense competition in the ceramic industry and the exposure of the firm's profitability to volatility in raw material and fuel prices. Further, ICRA notes the exposure of the firm's operations and cash flows to the cyclical nature of the real-estate industry, which is the main end-user sector.

The ratings, however, continue to favourably factor in the extensive experience of Oscar Ceramic's promoters in the ceramic industry, the benefits derived from its established group concerns in terms of marketing and distribution, and its proximity to raw material sources, by virtue of its presence in the ceramic hub of Morbi (Gujarat).

Outlook: Stable

ICRA believes Oscar Ceramics (OC) will continue to benefit from the longstanding experience of its partners in the ceramic industry and the strategic location of the plant. The outlook may be revised to Positive if substantial growth in revenue and profitability, reduction in creditors along with better working capital management improve the coverage indicators and liquidity profile. The outlook may be revised to Negative if the firm reports lower-than-expected cash accrual or a significant moderation in profitability or debt-funded capex deteriorates the capital structure or further stretches the working capital intensity, thereby weakening the liquidity.

Key rating drivers

Credit strengths

Experience of partners in ceramic tiles industry –The partners of the firm have extensive experience in the ceramic industry through their associations with other companies in the ceramic industry.

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

Credit challenges

Moderate financial risk profile – The firm’s financial profile remains moderate, as reflected by its modest scale of operations (operating income of Rs. 23.36 crore in FY2018 and Rs. 29.22 crore in 11MFY2019), reduction in operating profitability (operating margin of 6.09% in FY2018 and 6.65% in 11MFY2019 as compared to 9.82% in FY2017), average coverage indicators (total debt/OPBDITA at 4.33 times and OPBDITA/I&F at 2.92 times for FY2018) and high working capital intensity of operations (NWC/OI of 30% in FY2018).

Susceptibility of demand and cash flows to cyclicity inherent in real estate industry –The real estate industry is the key end user of ceramic tiles. Hence, the profitability and cash flows are likely to remain susceptible to the inherent cyclicity of the real estate industry.

Vulnerability of profitability to adverse fluctuations in raw material and fuel prices – Raw material and fuel are the two major components that determine the cost competitiveness in the ceramic industry. The company has, however, little control over the prices of its key inputs such as natural gas/coal and raw materials, and thus the profit margins remain exposed to adverse movement in raw material and gas/coal prices as the ability to pass on any upward movement in cost to the customers is limited due to stiff competition.

Liquidity position:

The fund flow from operations continue to remain positive and improved from Rs. 0.76 crore in FY2017 to Rs. 0.94 crore in FY2018 with the increase in scale of operations and higher absolute profits. The cash flow from operations however turned negative in FY2018 owing to increase in working capital requirements. The liquidity position remains moderate with no repayment obligations in the near to medium term. The average working capital limit utilisation remained moderate, at 59%, during the fifteen-month period from December 2017 to February 2019.

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 standalone financial profile of the firm.

About the company:

Established in 1999, Oscar Ceramics was engaged in manufacture of ceramic wall tiles having an installed capacity of 20000 MTPA. In H2FY2018 the firm changed its product profile to manufacture of vitrified body tiles in size 8mmX48mm. OC is promoted by Mr. Dharmesh Patel, Mr. Vishal Patel along with his family members and 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)

	FY2017	FY2018
Operating Income (Rs. crore)	14.40	23.36
PAT (Rs. crore)	0.68	0.48
OPBDIT/OI (%)	9.82%	6.09%
Total Debt/TNW (times)	0.83	1.14
Total Debt/OPBDIT (times)	3.14	4.33
Interest coverage (times)	2.16	2.92

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2017	Date & Rating in FY2017	
				April 2019	May 2018	Jan 2017	Apr 2016	
1 Term Loan	Long Term	1.66	0.00*	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	
2 Cash Credit	Long Term	4.00	NA	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	
3 Bank Guarantee	Short Term	1.60	NA	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	

*the company has repaid its entire term loan

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	FY2013	NA	FY2018	1.66	[ICRA]BB-(Stable)
	Cash Credit	-	NA	NA	4.00	[ICRA]BB-(Stable)
NA	Bank Guarantee	-	NA	NA	1.60	[ICRA]A4

Source: Oscar Ceramics

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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