

May 27, 2019

Stefina Ceramic Pvt. Ltd.: Long-term rating downgraded and short-term rating reaffirmed; removed from Issuer Not Cooperating category

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Term Loan	4.12	4.12	[ICRA]B-(Stable); downgraded from [ICRA]B (Stable) and removed from the 'Issuer Not Cooperating' category
Cash Credit	3.00	3.00	[ICRA]B-(Stable); downgraded from [ICRA]B (Stable) and removed from the 'Issuer Not Cooperating' category
Unallocated Limits	1.24	1.24	[ICRA]B-(Stable); downgraded from [ICRA]B (Stable) and removed from the 'Issuer Not Cooperating' category
Bank Guarantee	1.25	1.25	[ICRA]A4; reaffirmed and removed from the 'Issuer Not Cooperating' category
Total	9.61	9.61	

*Instrument details are provided in Annexure-1

Rationale

The rating downgrade takes into account Stefina Ceramic Pvt. Ltd.'s (SCPL) declined scale of revenue and profit margins. ICRA takes note of its below average financial risk profile marked by low return indicators, leveraged capital structure and weak debt coverage indicators. The ratings consider its stretched working capital position emanating from high inventory holding and elongated receivables leading to SCPL's weak liquidity profile. The ratings remain constrained by the intense competition in the ceramic industry, the cyclical nature in the real estate segment, its main end-user sector, as well as the vulnerability of the company's profitability to volatility in raw material and fuel prices.

The ratings, however, draws comfort from the vast experience of its promoters in the ceramic industry, by virtue of their association with other tile-manufacturing entities and the logistical advantages enjoyed by SCPL, from its location in India's ceramic hub, with easy access to quality raw material.

Outlook: Stable

ICRA expects SCPL 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 flows are lower than expected, or if any major debt-funded capital expenditure or further stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of promoters – SCPL’s key promoters, Mr. Manojbhai Vilpara and Mr. Hiteshbhai Vilpara, have reasonable experience in the ceramic industry, by virtue of their association with other companies involved in a similar line of business like Stefina Vitrified Private Limited and Fenix Ceramic Pvt. Ltd. (earlier association).

Location-specific advantage – The company’s manufacturing facility is in the ceramic hub of Morbi (Gujarat). The key raw materials used in the production of ceramic tiles are clay mineral, body clay and chemical additives among others. Most of these raw materials are easily available in Morbi, resulting in easy access to raw material sources at a competitive price.

Credit challenges

Small scale of operations; decline in scale of revenues in FY2019 – SCPL’s scale of operations remains small as reflected by its operating income (OI) of Rs. 12.13 crore in FY2018. Further, the OI witnessed a sharp decline of ~30% on YoY basis to Rs. 8.50 crore in FY2019 because of temporary cessation of operations (February and March 2019) followed by the National Green Tribunal’s order banning use of coal-based gasifier in Morbi. Operations stabilised from April 2019. The rise in fuel cost against limited pricing flexibility led to moderation in operating margins to 16.58% in FY2019 (provisional figures) against 17.40% in FY2018.

Weak financial risk profile – The financial risk profile remained weak as depicted from small net-worth base of Rs. 2.12 crore and high gearing of 4.03 times as on March 31, 2019. Due to its moderate profitability and relatively high debt levels, the coverage indicators stood weak with TD/OPBIDTA of 6.07 times, DSCR of 0.85 times and NCA/TD of 13% as on March 31, 2019 against 4.41 times, 1.04 times and 14%, respectively, as on March 31, 2018.

High working capital intensity – SCPL’s inventory holding elevated to 197 days as on March 31, 2019 against 112 days as on March 31, 2018 as a result of slowing down of sales in the last two months of FY2019. Moreover, delayed payments from customers resulted in a stretched receivable period of 138 days as on March 31, 2019 (~126 days as on March 31, 2018). The soared inventory level, coupled with elongated receivables, translated into higher working capital intensity to ~30% in FY2019 as against ~17% in FY2018.

Profitability susceptible to intense competition and cyclicality in the real estate industry – The ceramic tile-manufacturing industry is fragmented, which results in intense competition and exerts pressure on the profit margins. Further, the real estate industry is the major consumer of ceramic tiles and hence SCPL’s profitability and cash flows are likely to remain vulnerable to the cyclicality in the real estate industry.

Vulnerability of profitability to fluctuations in raw material and fuel costs – Raw material and fuel are the two major manufacturing cost components that determine the cost competitiveness of a player in the ceramic industry. Earlier, SCPL undertook production of digital wall tiles using a coal-based gasifier. However, it switched to piped natural gas (PNG) as a fuel alternative in March 2019 post NGT’s order banning the use of coal-based gasifier in Morbi. Since SCPL has limited control over key input such as raw material and fuel, adverse movements in raw material and gas prices can expose its profitability to fluctuations.

Liquidity position

The free cash flows (FCF) turned negative in the last two fiscals owing to higher outgo towards capital expenditure and incremental working capital requirement. The liquidity position remained stretched as reflected from its high debt repayment obligations against accruals and limited cushion in working capital limits with high average working capital

utilisation of ~80% in the past 12 months (April 2018 to March 2019). Going forward, the funding support from promoters will remain critical to meet the debt repayment obligations from the credit perspective. ICRA notes that in addition to internal accruals, timely funding support from promoters will remain critical to meet SCPL's debt repayment obligations and incremental working capital requirement.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The assigned ratings are based on the standalone financial statements of SCPL.

About the company:

Incorporated in 2013, SCPL manufactures digital ceramic wall tiles of two sizes — 10"x15" and 12"x18". SCPL's manufacturing facility, located at Wankaner, Rajkot (Gujarat), has a manufacturing capacity of ~8,000 boxes of ceramic wall tiles per day. It markets and sells ceramic tiles under the brand name of 'Stefina'. The company was promoted by the Vilpara family, with the key promoters Mr. Manojbhai Vilpara and Mr. Hiteshbhai Vilpara, having extensive experience in the ceramic industry, by virtue of their earlier association with another tile-manufacturing company, Fenix Ceramic Pvt. Ltd.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	10.68	12.13
PAT (Rs. crore)	0.14	0.22
OPBDIT/OI (%)	17.46%	17.40%
Total Debt/TNW (times)	5.88	4.84
Total Debt/OPBDITA (times)	5.33	4.41
Interest Coverage (times)	2.76	2.66
NWC/OI (%)	17%	17%

Source: SCPL 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 FY2020	Date & Rating in FY2018	Date & Rating in FY2017	
					April 2019*	October 2017	August 2016	
1	Term Loan	4.12	2.84 [^]	May 2019 [ICRA]B-(Stable); removed from ISSUER NOT COOPERATING	April 2019* [ICRA]B (Stable); ISSUER NOT COOPERATING	October 2017 [ICRA]B (Stable);	August 2016 [ICRA]B (Stable);	
2	Cash Credit	3.00	1.95 [^]	[ICRA]B-(Stable); removed from ISSUER NOT COOPERATING	[ICRA]B (Stable); ISSUER NOT COOPERATING	[ICRA]B (Stable);	[ICRA]B (Stable);	
3	Unallocated Limits	1.24	-	[ICRA]B-(Stable); removed from ISSUER NOT COOPERATING	[ICRA]B (Stable); ISSUER NOT COOPERATING	[ICRA]B (Stable);	[ICRA]B (Stable);	
4	Bank Guarantee	1.25	-	[ICRA]A4; reaffirmed and removed from ISSUER NOT COOPERATING	[ICRA]A4; [ICRA]B (Stable); ISSUER NOT COOPERATING	[ICRA]A4;	[ICRA]A4;	

[^]Outstanding as on March 31, 2019; Source: SCPL provisional financials

* moved to "Issuer Not-Cooperating" category based on information

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	FY2023	4.12	[ICRA]B-(Stable)
NA	Cash Credit	NA	NA	NA	3.00	[ICRA]B-(Stable)
NA	Unallocated Limits	NA	NA	NA	1.24	[ICRA]B-(Stable)
NA	Bank Guarantee	NA	NA	NA	1.25	[ICRA]A4+

Source: Stefina Ceramic Pvt. Ltd.

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