

August 20, 2020

Small Johnson Floor Tiles Private Limited: [ICRA]BBB- (Stable)/A3 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loan	3.89	[ICRA]BBB- (Stable); assigned
Fund-based – Cash Credit	12.00	[ICRA]BBB- (Stable); assigned
Non-fund Based – Bank Guarantee	1.50	[ICRA]A3; assigned
Total	17.39	

*Instrument details are provided in Annexure-1

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of Sanskar Ceramics Private Limited (SCPL) and Small Johnson Floor Tiles Private Limited (SJFTPL)—both the entities are collectively referred as ‘the Group’, as they have common promoters, same line of business and financial linkages. Moreover, SJFTPL has extended a corporate guarantee to SCPL for its entire rated debt.

The assigned ratings factors in the in the association of the Group with the H & R Johnson (India) (HRJ) division of Prism Johnson Limited, which helps to leverage the latter’s strong brand, established market position and vast distribution network. Moreover, the ratings take into account the Group’s low off-take risk because of its sales arrangement with H&R Johnson, which enables savings in marketing and distribution overheads. Further, the ratings continue to positively factors in the extensive experience of the promoters in the ceramic industry and the Group’s location in the Morbi region of Gujarat, the ceramic hub of India.

The ratings, however, remained constrained by the Group’s modest scale of operations, the intense competition in the tile industry and the vulnerability of the Group’s profitability to the changes in raw material and fuel prices. The rating also takes into account the average financial risk profile of the Group, marked by leveraged capital structure, average debt-coverage indicators and high working capital intensity of operations.

The stable outlook reflects that the company will continue to benefit from the association of the Group with HRJ, a division of PJI, and the experience of the management in the tile industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and location-specific advantage – The promoter group has two-decade long experience in the ceramic industry. Moreover, the strong market presence of PJI (JV partner) and the established relationship of the Group with customers and suppliers support the business profile. The Group also benefits from its strategic location in the ceramic hub of Morbi (Gujarat), which enables easy access to raw material sources at a competitive price.

Opportunity to leverage on strong brand, market position and vast distribution network of HRJ division of PJJ: PJJ is a leading player in the Indian tile industry and enjoys a widespread distribution network, which enhances its market presence. PJJ holds 50% stake in both SCPL and SJFTPL, and hence, the Group derives operational benefits from the established brand name and the franchise distribution network of H&R Johnson (division of PJJ). Moreover, as most of the Group's sales are to PJJ, the off-take risk is limited.

Credit challenges

Modest scale of operations and average financial risk profile: At a consolidated level, the revenue grew by ~8% to Rs. 150.32 crore in FY2020 from Rs. 139.39 crore in FY2019 due to healthy sales in the export market. Nevertheless, the overall scale of operations continued to be modest. Return indicators stood average, as evident from the RoCE of 8.23% in FY2020.

The financial risk profile is average, marked by leveraged capital structure, as reflected from the gearing of 1.39 times and TOL/TNW of 2.29 as on March 31, 2020, although it improved from 1.87 times and 2.86 times, respectively, as on March 31, 2019 at the Group level. Debt coverage indicators stood moderate, with interest coverage of 1.89 times, Total Debt/OPBDITA of 3.87 times and NCA/TD of 11%. The working capital intensity moderated to 16% as on March 31, 2020 compared to 23% as on March 31, 2019 owing to lower receivables period and higher payable period. However, it continued to remain high.

Intense competition - The tile industry continues to be competitive, with the presence of large and organised players as well as numerous small-scale tile manufacturers, resulting in pricing pressure. However, the company faces low off-take risk because of its sales arrangement with H&R Johnson.

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. SCPL has limited control over the prices of its key input such as gas and raw material. Hence, the firm's margin is vulnerable to the movement in raw material and gas prices and relies on the company's ability to pass on any adverse movement to customers.

Liquidity position: Adequate

Liquidity position stands adequate as annual cash accruals are expected to remain sufficient for the future debt obligations over FY2021-22. The liquidity position is also comforted by the Rs. 17.76 crore cushion (Rs. 12.99 crore in SCPL and Rs. 4.77 crore in SJFTPL) in the working capital limit as on June 30, 2020. Moreover, the continuous financial support from PJJ in the form of customer advances helps SCPL to maintain adequate liquidity. Additionally, the moratorium for debt repayment and the additional Covid line of Rs. 3.70 crore (Rs. 2.50 crore in SCPL and Rs. 1.20 crore in SJFTPL), are estimated to lend further support to liquidity in FY2021.

Rating sensitivities

Positive triggers:

- Significant scale up of operations coupled with improvement in profitability on a sustained basis improves the financial risk profile at a consolidated level
- Strengthening of the parent company's credit profile

Negative triggers:

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- Significant decline in cash accruals and profitability along with significant stretch in working capital cycle weakens the financial risk profile.
- Weakening of the parent's credit profile or deterioration in the Group's financial risk profile may put negative pressure on the ratings

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	While arriving at the ratings, ICRA has taken the implicit support of parent/JV partner – Prism Johnson Limited
Consolidation/Standalone	ICRA has taken a consolidated view of Sanskar Ceramics Private Limited and Small Johnson Floor Tiles Private Limited.

About the company:

Established in 2011, Small Johnson Floor Tiles Private Limited (SJFTPL) manufactures porcelain floor tiles at its manufacturing facility at Morbi, in Gujarat. The company has an annual production capacity of 78,000 MT. In 2011, the company diluted 50% of its stake in Prism Johnson Limited (PJM). At present, Prism Johnson holds 50% equity holding in SJFTPL. Till FY019, SJFTPL had 50% stake in Sanskar Ceramics Private Limited (SCPL). However, it sold 15% holding of SCPL to Prism Johnson Limited (PJM) in FY2020, while the remaining 35% holding was sold to PJM in July 2020.

Incorporated in April 2013, Sanskar Ceramics Private Limited (SCPL) manufactures wall tiles and vitrified tiles at its manufacturing facility at Morbi, in Gujarat. It has an installed production capacity of ~1,21,000 MTPA.

In FY2020, at a consolidated level, the Group reported a net loss of Rs. 0.54 crore on an operating income of Rs. 150.32 crore (provisional figure), as compared to a net loss of Rs. 2.82 crore on an operating income of Rs. 139.39 crore in FY2019.

Key financial indicators (audited/provisional) – Standalone

	FY2019	FY2020*
Operating Income (Rs. crore)	51.03	42.16
PAT (Rs. crore)	1.01	2.43
OPBDITA/OI (%)	10.40%	8.01%
ROCE (%)	7.23%	10.15%
Total Outside Liabilities/Tangible Net Worth (times)	0.77	1.02
Total Debt/OPBDITA (times)	3.08	4.47
Interest Coverage (times)	2.13	1.29

Source: Company financials and ICRA research; * provisional figures

Key financial indicators (audited/provisional) – Consolidated

	FY2019	FY2020*
Operating Income (Rs. crore)	139.39	150.32
PAT (Rs. crore)	(2.82)	(0.54)
OPBDITA/OI (%)	9.02%	12.07%
ROCE (%)	4.44%	8.23%
Total Outside Liabilities/Tangible Net Worth (times)	2.86	2.29
Total Debt/OPBDITA (times)	6.43	3.87
Interest Coverage (times)	1.41	1.89

Source: Company financials and ICRA research; * provisional figures

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

All figures in Rs. Crore

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					20-Aug-20			
1	Cash Credit	Long Term	12.00	11.64 [^]	[ICRA]BBB-(Stable)	-	-	-
2	Term Loan	Long Term	3.89	0.47 [^]	[ICRA]BBB-(Stable)	-	-	-
3	Bank Guarantee	Short Term	1.50	1.50 [^]	[ICRA]A3	-	-	-

[^]Outstanding as March 31, 2020; Source: SJFTPL financials

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	-	-	-	12.00	[ICRA]BBB- (Stable)
NA	Term Loan	FY2017	-	FY2022	3.89	[ICRA]BBB- (Stable)
NA	Bank Guarantee	-	-	-	1.50	[ICRA]A3

Source: Small Johnson Floor Tiles Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company name	Ownership	Consolidated Approach
Sanskar Ceramics Private Limited	-	Full consolidation

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