

Lexus Granito (India) Limited

December 17, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loans	42.18	42.18	[ICRA]D; Downgraded from [ICRA]BB- (Negative)
Fund-based - Cash Credit	22.00	22.00	[ICRA]D; Downgraded from [ICRA]BB- (Negative)
Fund-based - EPC/FBD [^]	(17.00)	(17.00)	[ICRA]D; Downgraded from [ICRA]A4
Non-fund based - Bank Guarantee	4.70	4.70	[ICRA]D; Downgraded from [ICRA]A4
Non-fund based - Credit Exposure Limit [^]	(0.75)	(0.75)	[ICRA]D; Downgraded from [ICRA]A4
Non-convertible Debentures (NCD)	6.40	6.40	[ICRA]D; Downgraded from [ICRA]BB- (Negative)
Proposed NCD	8.60	8.60	[ICRA]D; Downgraded from [ICRA]BB- (Negative)
Total	83.88	83.88	

*Instrument details are provided in Annexure-1

[^]Sublimit within cash credit

Rationale

The ratings downgrade takes into account Lexus Granito (India) Limited's (LGL's) delays in servicing debt obligations on account of its stretched liquidity position, following delayed payments from customers leading to elongated receivables as well as high inventory levels. Moreover, the pressure on liquidity is evident from the full utilisation of the working capital limits and the stretched creditors to fund the incremental working capital requirements. The ratings also consider the average financial risk profile, marked by the moderate debt coverage indicators and increased working capital intensity of operations. Further, the cyclical nature of the real estate industry (the main end-user sector), intense competition and exposure of the company's profitability to volatility in raw material and fuel (piped natural gas and coal) prices are other credit concerns.

However, the ratings derive comfort from the extensive experience of the promoters in the ceramic tile industry, the company's established presence in the domestic and international markets and its location, which ensures easy availability of raw materials.

Outlook: Not applicable

Key rating drivers

Credit strengths

Experience of promoters - Incorporated in 2010, LGL is managed by its key promoters, Mr. Babulal Detroja, Mr. Anil Detroja, Mr. Nilesh Detroja and Mr. Hitesh Detroja. They have more than a decade of experience in the ceramic tile industry via their association with the Group entities in the ceramic tile business.

Favourable location for raw material procurement; wide range of products - The company's manufacturing facility is located in Morbi, Gujarat, which ensures easy availability of raw material. It manufactures vitrified tiles and wall tiles and supplies them in various sizes, designs and specifications to cater to the special needs of clients.

Credit challenges

Delays in debt servicing - As per the confirmation from the debenture trustee (DT), the company has failed to make the interest payment on the NCDs. The payment was due on December 12, 2018 and the delay confirmation was received from the DT on December 14, 2018. Further, the company has also delayed in servicing its debt obligations on its bank facilities for the last three months.

Increased working capital intensity and stretched liquidity position - LGL's working capital intensity remained high in the past as reflected by an NWC/OI of ~51% in H1 FY2019 (~34% in H1 FY2018). This is because of delayed payments from customers, leading to elongated receivables as well as a significant increase in the inventory levels. Moreover, the pressure on liquidity is evident from the stretched creditors to fund the incremental working capital requirement.

Intense competition - The company operates in a competitive business environment with the presence of organised players as well as unorganised tile manufacturers, thereby limiting its pricing and profitability.

Vulnerability of profitability to adverse fluctuations in raw material and coal prices - The company's margins are primarily affected by the raw material and coal price fluctuations. Any adverse movement in these prices could have an adverse impact on the margins, considering its limited ability to pass on the price hike due to intense competition. The price fluctuations also impact the company's realisations.

Liquidity position

LGL's cash flow from operations remained negative in FY2018 on account of the increase in working capital intensity of operations, driven by elongated receivables and high inventory levels. The pressure on liquidity is also evident from the almost full utilisation of the working capital limits. Going forward, the efficient management of the working capital requirement will be the key to improving the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Policy on Default Recognition
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Incorporated in 2010, Lexus Granito (India) Limited is an established player in the ceramics industry with presence in the domestic and international markets. The company manufactures vitrified tiles and operates through its own plant in Morbi with an installed capacity to produce 48,00,000 boxes of vitrified tiles per annum in three sizes - 600X600 mm, 1200X600 mm and 800X1200 mm. In June 2017, the company commenced the manufacture of wall tiles (which was earlier manufactured under its Group concern, Lexus Ceramic Private Limited). The wall tiles manufacturing unit is located in LGL's existing facility. The unit has an installed capacity to produce 64,80,000 boxes of wall tiles per annum in three sizes - 300X600 mm, 300X450 mm and 300X300 mm. The company is managed by Mr. Babulal Detroja, Mr. Anil Detroja, Mr. Nilesh Detroja and Mr. Hitesh Detroja.

In FY2018, it reported a net profit of Rs. 7.00 crore on an operating income (OI) of Rs. 180.00 crore compared to a net profit of Rs. 6.57 crore on an OI of Rs. 164.27 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	164.27	180.00
PAT (Rs. crore)	6.57	7.00
OPBDIT/ OI	11.39%	16.39%
RoCE	15.82%	17.57%
Total Debt/ TNW (times)	2.14	1.00
Total Debt/ OPBDIT (times)	4.32	2.31
Interest Coverage (times)	3.64	3.29
NWC/OI	23.33%	35.15%

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 as on March 31, 2018 (Rs. crore)	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017		Date & Rating in FY2016	
				December 2018	June 2018	September 2017	March 2017	October 2016	August 2015	April 2015
Term Loans	Long Term	42.18	30.35	[ICRA] D	[ICRA]BB-(Negative)	[ICRA]BB+(Stable)	[ICRA]BB(Stable)	[ICRA]BB(Stable)	[ICRA]BB-(Stable)	[ICRA]B Withdrawn
Cash Credit	Long Term	22.00	-	[ICRA] D	[ICRA]BB-(Negative)	[ICRA]BB+(Stable)	[ICRA]BB(Stable)	[ICRA]BB(Stable)	[ICRA]BB-(Stable)	[ICRA]B Withdrawn
EPC/FBD*	Short Term	(17.00)	-	[ICRA] D	[ICRA]A4	[ICRA]A4+	[ICRA]A4	[ICRA]A4	[ICRA]A4	-
Bank Guarantee	Short Term	4.70	-	[ICRA] D	[ICRA]A4	[ICRA]A4+	[ICRA]A4	[ICRA]A4	[ICRA]A4	-
Credit Exposure Limit*	Short Term	(0.75)	-	[ICRA] D	[ICRA]A4	[ICRA]A4+	[ICRA]A4	[ICRA]A4	[ICRA]A4	-
NCD	Long Term	6.40	-	[ICRA] D	[ICRA]BB-(Negative)	[ICRA]BB+(Stable)	[ICRA]BB(Stable)	-	-	-
Proposed NCD	Long Term	8.60	-	[ICRA] D	[ICRA]BB-(Negative)	[ICRA]BB+(Stable)	[ICRA]BB(Stable)	-	-	-

*Sublimit within cash credit

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

ISINN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2012	NA	FY2022	42.18	[ICRA]D
NA	Cash Credit	NA	NA	NA	22.00	[ICRA]D
NA	EPC/FBD*	NA	NA	NA	(17.00)	[ICRA]D
NA	Bank Guarantee	NA	NA	NA	4.70	[ICRA]D
NA	Credit Exposure Limit*	NA	NA	NA	(0.75)	[ICRA]D
INE500X07010	NCD	FY2018	13.05% (Fixed)	FY2021	6.40	[ICRA]D
NA	Proposed NCD	NA	NA	NA	8.60	[ICRA]D

*Sublimit within cash credit

Source: Lexus Granito (India) Limited

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