

July 27, 2017

Acrysil Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Fund-Based Limit	47.40 (revised from 49.40)	[ICRA]BBB+(Stable); Reaffirmed
Non-Fund Based Limit	10.96	[ICRA]A2; Reaffirmed
Fund-Based Unallocated Limit	20.00 (earlier nil)	[ICRA]BBB+(Stable); Reaffirmed
Total	78.36	

*Instrument Details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) on the Rs. 47.40 crore¹ fund-based limit of Acrysil Limited (AL or 'the company')². ICRA has also reaffirmed the short-term rating of [ICRA]A2 (pronounced ICRA A two) for the Rs. 10.96 crore non-fund based limits of AL. ICRA has reaffirmed a rating of [ICRA]BBB+ to the Rs. 20.00 crore fund-based unallocated limits of AL. The outlook on the long-term rating is 'Stable'.

Rationale

The reaffirmation of rating continues to take into account the long standing experience of the promoters in the granite-based kitchen sink business, its strong market position as an established player in an industry with comfortable gearing levels and above average debt coverage indicators. ICRA notes the increase in equity stake in Home-Style Products Limited and product/segmental diversification by Acrysil (bath segment and trading of kitchen appliances), which is expected to result in operational synergies and support future revenue growth of the company.

The ratings, however, continue to be constrained by the high working capital intensive nature of business as evident from the Net Working Capital/Operating Income (NWC/OI) of 42% as on March 31, 2017 as compared to 33% as on March 31, 2016 (consolidated financials) primarily on account of high inventory holding. Furthermore, the ratings take into account the modest free cash flows owing to ongoing capex and higher incremental working capital requirement. ICRA also notes the company's susceptibility to foreign exchange currency fluctuations in absence of formal hedging policy. Moreover, the company incurred exchange loss to the tune of Rs. 3.15 crore in FY2017 on account of depreciation of the Sterling Pound on US Dollar borrowing, post BREXIT.

Going forward, the ability of the company to scale up its revenue while maintaining profitability and efficiently manage its working capital cycle will be the key rating considerations.

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

- **Longstanding experience of the promoter and established position of the company in the granite-based kitchen sink market:** Incorporated in 1987, the company is engaged in manufacturing granite-based kitchen sinks, also known as “Composite Quartz Sinks”. In addition, the group has diversified into products like stainless steel kitchen sinks, trading of kitchen appliances and a newly launched bath segment.
- **Comfortable gearing and coverage indicators on a consolidated basis:** The financial risk profile of the group continues to remain healthy as marked by above average return indicators, comfortable gearing and debt coverage indicators.
- **Diversified product portfolio consisting of granite and stainless steel kitchen sinks, bath segment and trading of kitchen appliances provide more stability to cash flows:** The group has diversified into various products consisting of granite and stainless steel kitchen sinks and trading of kitchen appliances. The group also launched a new bath segment in November 2016 in the brand name of Stern Hagen, manufacturing bathroom basins. Product/segmental diversification is expected to result in operational synergies and support AL’s future revenue growth.

Credit weaknesses

- **High working capital intensity of the business mainly because of the need to maintain high levels of inventory and prompt payment to suppliers:** Inventory of 2-3 months is required to be maintained by the company owing to large varieties of designs and higher lead time for imported raw material. This has been the key reason for high working capital intensive nature of operations, which further increased in FY2017, with reduction in supplier credit to avail discounts. This resulted into NWC/OI to 42% in FY2017.
- **Modest cash flows on account of debt funded capex and increased working capital requirements:** Cash flow was suppressed in FY2017 owing to ongoing capex required for developing moulds for existing and new customers. Moreover, cash flows were constrained by higher working capital needs of the business.
- **Moderated revenue growth of the company in current fiscal coupled with dip in net margins:** The revenue growth of the company, remains susceptible to demand conditions of real estate/housing sector, and witnessed moderation in FY2017 because of lower than expected growth from domestic market in the H2 FY2017 owing to demonetisation.
- **Exposure to foreign exchange fluctuations in the absence of a formal hedging policy:** Exports continue to contribute about 70-80% to total gross sales; however, in absence of formal hedging policy, risk of fluctuation loss remains high. Moreover, the company incurred exchange loss in FY2017 on account of depreciation of the Sterling Pound on US Dollar borrowing, post BREXIT.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view, along with its subsidiary Acrysil Steel Limited, Sternhagen Bath Private Limited, Acrysil GmbH, Germany, Acrysil Appliances Limited, Acrysil UK Limited and Home-Style Products Limited, UK (step-down subsidiary).

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Acrysil Limited was incorporated in 1987 by first generation promoter, Mr. Ashwin Parekh, and is engaged in manufacturing granite-based kitchen sinks, also known as “Composite Quartz Sink”. The company started through a technical collaboration with “Schock & Co.” of Germany, which is a leading decorative mouldings company in the world. The registered office of the company is in Mumbai. Its manufacturing plant is at Bhavnagar, Gujarat, and is ISO: 9001:2008 certified. At present, the unit has a total installed manufacturing capacity of 3,25,000 sinks per annum. However, after the completion of the capex the installed capacity will be enhanced to 3,85,000 sinks per annum.

AL has also entered into manufacturing stainless steel kitchen sinks mainly for the domestic market, through its subsidiary, Acrysil Steel Limited (rated ICRA BBB-/A3), wherein Acrysil Limited holds 85% stake. AL holds 100% stake in Acrysil GmbH, Germany, and Acrysil UK Limited. Home-Style Products UK Limited is a step-down subsidiary of AL through which AL has entered the UK market.

Table 1: Key Financial Indicators (Audited)

	Standalone		Consolidated	
	FY2016	FY2017	FY2016	FY2017
Operating Income (Rs. crore)	138.72	141.96	171.91	180.92
PAT (Rs. crore)	7.05	8.32	14.04	10.06
OPBDIT/ OI (%)	13.80%	15.13%	17.74%	16.64%
RoCE (%)	14.83%	13.62%	21.99%	16.83%
Total Debt/ TNW (times)	0.57	0.68	0.82	0.85
Total Debt/ OPBDIT (times)	2.45	2.85	2.20	2.66
Interest coverage (times)	3.26	3.73	3.34	2.71
NWC/ OI (%)	34%	45%	33%	42%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:
Table:

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years					
		Type	Rated amount (Rs. crore)	Month-year & Rating	Month- year & Rating in FY2017		Month- year & Rating in FY2016		Month- year & Rating in FY2015	
				July 2017	October 2016	April 2016	October 2015	May 2015	August 2014	
1	Cash Credit	Long Term Fund based	37.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	
2	Term Loan	Long Term Fund based	10.40	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	
3	Letter of Credit/Bank Guarantee	Short Term Non Fund Based	10.96	[ICRA]A2	[ICRA]A2	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	
4	Unallocated	Long Term	20.00	[ICRA]BBB+ (Stable)	N.A.	N.A.	N.A.	N.A.	N.A.	

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
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	37.00	[ICRA]BBB+; Stable
Term Loan	FY 2015	11.70%	FY 2022	10.40	[ICRA]BBB+; Stable
LC/BG/FC	-	-	-	10.96	[ICRA]A2
Unallocated	-	-	-	20.00	[ICRA]BBB+; Stable

Source: AL

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About ICRA Limited:

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