

Sepal Ceramic

February 12, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loan	3.03	1.24	[ICRA]B+ (Stable); Reaffirmed
Fund-based – Cash Credit	4.40	3.40	[ICRA]B+ (Stable) ; Reaffirmed
Non-fund Based – Bank Guarantee	0.70	2.00	[ICRA]A4; Reaffirmed
Unallocated Limits	-	1.49	[ICRA]B+ (Stable)/[ICRA]A4; Reaffirmed
Total	8.13	8.13	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B+ (pronounced ICRA B plus) to the Rs. 1.24-crore¹ term loan facility and the Rs. 3.40-crore cash credit facility of Sepal Ceramic (SC or the firm)². ICRA has also reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 2.00-crore non-fund based bank guarantee facility of SC. ICRA has further reaffirmed the long-term rating of [ICRA]B+ and short-term rating of [ICRA]A4 to the Rs. 1.49-crore unallocated limits of SC. The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of ratings continues to favourably factor in the experience of the promoters spanning more than a decade in the ceramic industry and the locational advantage, which ensures easy availability of raw materials.

The ratings are, however, constrained by the firm's small scale of operations in an intensely competitive industry and below average financial risk profile marked by volatile profitability, small net-worth base, modest debt coverage indicators and high working capital intensity of operations. The ratings also factor in the exposure of the firm's profitability to volatility in fluctuations in the raw material and fuel prices and cyclicity associated with the real estate industry, which is the main consuming sector. ICRA notes the potential adverse impact on the firm's net-worth and the gearing levels in case of any substantial withdrawal from its capital accounts.

Outlook: Stable

ICRA expects Sepal Ceramic to continue to benefit from the extensive experience of its promoters. 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 accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

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

Experience of promoters in the ceramic industry – The key promoters, Mr. Paresh Vilpara and Mr. Paresh Loriya, have more than a decade's experience in the ceramic industry, which helps the company in securing repeat orders.

Favourable location for raw material – The manufacturing facility of the firm is located in the ceramic tiles manufacturing hub of Morbi (Gujarat), which provides easy access to quality raw materials.

Credit weaknesses

Small scale of operations amid intense competition – The firm has a small scale of operations with an operating income of Rs. 12.53 crore in FY2017, witnessing YoY decline of ~12% in FY2017. The firm faces stiff competition from organised as well as a large number of unorganised players in the tile manufacturing industry, which limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins.

Below average financial risk profile – The operating margins remained volatile, which declined from 13.53% in FY2016 to 10.54% in FY2017 with increasing raw material cost and selling expenses as a percentage of operating income. The financial risk profile of the firm remained below average, backed by modest debt coverage indicators, as reflected by interest coverage of 2.26 times, Total Debt/OPBDITA of 4.14 times and TOL/TNW of 2.82 times in FY2017. The working capital intensity also remained high as depicted by NWC/OI (~40% as on March 31, 2017) due to elongated receivables and increase in inventory level.

Vulnerability of profitability and cash flows to cyclicalities inherent in the real estate industry - The real estate industry is the main consuming sector for tiles, and hence the demand for tiles is exposed to cyclicalities in the realty sector. Nevertheless, the risk is mitigated to some extent by increasing export volumes.

Vulnerability of profitability to any adverse fluctuations in raw material and gas/coal prices – The margins of the firm are largely affected by the raw material price and piped natural gas/coal price fluctuations. Any adverse movement in the prices of raw materials and fuel could have an adverse impact on the firm's margins, considering its limited ability to pass on the price hike owing to high competitive intensity. The price fluctuations also impact the realisations of the firm.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the firm:

Sepal Ceramic was established as a partnership firm in 2007 by Mr. Paresh Vilpara and family. The commercial operations of the firm commenced from April 2008. SC manufactures digitally printed ceramic wall tiles from its unit in Morbi, Gujarat, with an installed production capacity of 38,500 metric tonnes per annum.

In FY2017, the firm reported a net profit of Rs. 0.06 crore on an operating income of Rs. 12.53 crore, as compared to a net profit of Rs. 0.40 crore on an operating income of Rs. 14.31 crore in the previous year.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	14.31	12.53
PAT (Rs. crore)	0.40	0.06
OPBDIT/ OI (%)	13.53%	10.54%
RoCE (%)	11.01%	6.25%
Total Debt/ TNW (times)	1.46	1.27
Total Debt/ OPBDIT (times)	3.32	4.14
Interest coverage (times)	2.41	2.26
NWC/ OI (%)	38.12%	39.96%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2018)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2017 (Rs. crore)	Date & Rating February 2018	Date & Rating in FY2017 October 2016	Date & Rating in FY2016 November 2015	Date & Rating in FY2015 September 2014
Term Loan	Long Term	1.24	1.09	[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+	[ICRA]B+
Cash Credit	Long Term	3.40		[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+	[ICRA]B+
Bank Guarantee	Short Term	2.00		[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
Unallocated Limits	Long Term/ Short Term	1.49		[ICRA]B+ (Stable)/ [ICRA]A4	-	-	-

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	FY2016	NA	FY2021	1.24	[ICRA]B+ (Stable)
NA	Cash Credit	NA	NA	NA	3.40	[ICRA]B+ (Stable)
NA	Bank Guarantee	NA	NA	NA	2.00	[ICRA]A4
NA	Unallocated Limits	NA	NA	NA	1.49	[ICRA]B+ (Stable)/[ICRA]A4

Source: Sepal Ceramic

ANALYST CONTACTS

K. Ravichandran

+91 44 4596 4301
k.ravichandran@icraindia.com

Sanket Thakkar

+91 79 4027 1528
sanket.thakkar@icraindia.com

Suprio Banerjee

+91 22 6114 3443
supriob@icraindia.com

Jaimin Patel

+91 79 4027 1550
jaimin.patel@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
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Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999

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