

Acrysil Limited

October 31, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit/EPC/FBP	37.00	62.00	[ICRA]BBB+ (Stable); Reaffirmed
Fund-based Term Loan	10.40	21.00	[ICRA]BBB+ (Stable); Reaffirmed
Non-Fund based Letter of credit/BG/FC	10.96	10.00	[ICRA]A2; Reaffirmed
Unallocated Limits	20.00	1.11	[ICRA]BBB+ (Stable); Reaffirmed
Total	78.36	94.11	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) for the Rs. 83.00-crore¹ (enhanced from Rs. 47.40-crore) fund-based facility 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. 10.00-crore (reduced from Rs. 10.96-crore) non-fund based facility of AL. ICRA has also reaffirmed the [ICRA]BBB+ rating for the Rs. 1.11-crore (reduced from Rs. 20.00-crore) unallocated limits of AL. The outlook on the long-term rating is Stable.

Rationale

The rating reaffirmation continues to factor in the long experience of the promoter and the established position of the Group in granite-based kitchen sink industry. Moreover, its strong market position as an established industry player with comfortable gearing levels and above-average debt coverage indicators are also credit positives. ICRA notes that the diversified portfolio of Acrysil Limited (bath segment and trading of kitchen appliances) provides stability and diversification to cash flows. This along with the equity infusion, by way of convertible warrants in FY2019 and FY2020, is expected to improve capital structure and support future growth synergies.

The ratings, however, are constrained by AL's vulnerability to raw material prices; the profitability declined in FY2018 as the company was unable to pass on the full increase in raw material prices. The ratings also reflect the working capital intensive business caused by high inventory holding period and relatively long collection cycle. As exports contribute 70% to the total revenue, the company's profitability is susceptible to intense competition in the international kitchen sink industry, which has large multinational players. Furthermore, its profitability remains vulnerable to adverse forex movements, although the same is partially mitigated through natural hedging.

Outlook: Stable

ICRA believes that AL will continue to benefit from the experience of the Group in kitchen sink industry and expects the operating income to show moderate growth supported by periodical capacity increase and stable demand. The outlook

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh=1 crore=10 million

may be revised to Positive if substantial revenue growth, and improvement in profitability (through periodical price revisions) and working capital strengthen its financial risk profile. The outlook may be revised to Negative if reduction in sales or further moderation in profitability lowers the expected cash accrual, or if any further debt-funded capital expenditure or stretch in the working capital cycle deteriorates capital structure and liquidity.

Key rating drivers

Credit strengths

Extensive experience of promoters and established presence of group in granite-based kitchen sink industry – Acrysil Limited was incorporated in 1987 and is the leading manufacturer of granite-based kitchen sink in India, also known as ‘Composite Quartz Sink’. Its promoters have over three-decade experience in the kitchen sink industry. Thus, the promoters’ long experience in the industry, their established relationship with suppliers and customers are expected to support the business profile.

Comfortable gearing and debt coverage indicators- The gearing of the company was comfortable, at 0.77 times in FY2018 (consolidated). Moreover, the debt coverage indicators were above average (interest coverage at 4.20 times, NCA/Total Debt at 19% and DSCR at 1.91 times in FY2018).

Diversified product portfolio - The Group has diversified into various products such as granite and stainless steel kitchen sinks, bath segment; it also trades in kitchen appliances. Product/segmental diversification is expected to result in operational synergies and support AL’s future revenue growth.

Equity infusion by way of convertible warrants will help to improve capital structure and support future growth - The company has issued 1,50,000 convertible warrants at a price of Rs. 550 each warrant, which will be converted into equity share of Rs. 10 each within a period of 18 months from the date of allotment of warrant. These warrants will be used to fund capital expenditure and working capital requirements, thereby supporting future growth prospects.

Credit challenges

Working capital intensive business – The company’s financial risk profile is marked by high working capital intensity (40% as on March 31, 2018) owing to high inventory holding and relatively long receivable cycle. The utilisation level in the last twelve stood at around 92%; however, the liquidity profile is supported by the current enhancement in fund-based limit as well as Rs. 8.74 crore liquidity as on year-end.

Vulnerability of profitability to fluctuation in raw material prices and foreign exchange – AL’s profitability continues to be vulnerable to increase in the price of key raw materials i.e. resins and coated silica, given the high inventory maintained by the company. The operating margin declined to 13.80% in FY2018 from 15.02% in FY2017 (consolidated) mainly due to increase in raw material price that the company was not able to pass on to its customers. Further, majority of AL’s revenue is generated through the export market, making its profitability vulnerable to adverse forex movements.

Competition in export market- As exports constitute 70% of the total revenue, the company faces competition from few multinational companies in the export market. However, the company is placed favourably in the domestic market.

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 firm:

Acrysil Limited was incorporated in 1987 by first generation promoter, Mr. Ashwin Parekh. It manufactures granite-based kitchen sinks, also known as “Composite Quartz Sink”. The company has a technical collaboration with Germany-based “Schock & Co.”, 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 4,00,000 sinks per annum. The company has a planned capex of Rs. 10.00 crore in FY2019, post which the installed capacity will be enhanced to 5,00,000 sinks per annum.

AL also manufactures stainless steel kitchen sinks mainly for the domestic market, through its subsidiary, Acrysil Steel Limited (rated ICRA BBB-(Stable)/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.

Key financial indicators (audited)

	Standalone		Consolidated	
	FY2017	FY2018	FY2017	FY2018
Operating Income (Rs. crore)	141.64	153.90	181.27	196.60
PAT (Rs. crore)	6.26	6.41	7.97	12.24
OPBDIT/ OI (%)	12.66%	11.96%	15.02%	13.80%
RoCE (%)	10.93%	9.46%	14.09%	11.71%
Total Debt/ TNW (times)	0.60	0.72	0.71	0.77
Total Debt/ OPBDIT (times)	3.41	4.12	2.94	3.38
Interest Coverage (times)	3.07	2.93	2.45	4.20
NWC/ OI (%)	41%	44%	38%	40%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)		Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating October 2018	Date & Rating in FY2018 July 2017	Date & Rating in FY2017 September 2016 April 2016		Date & Rating in FY2016 September 2015
1 Cash Credit/EPC/FBP	Long Term	62.00	59.56*	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2 Term Loan	Long Term	21.00	15.22*	[ICRA]BBB+ (Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3 Letter of Credit/BG	Short Term	10.00	NA	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3
4 Unallocated limits	Long Term/ Short Term	1.11	NA	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

*Outstanding as on March 31, 2018

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/EPC/FBP	-	9.50%	NA	62.00	[ICRA]BBB+ (Stable)
NA	Term Loan	FY2014	9.25%	FY2023	21.00	[ICRA]BBB+ (Stable)
NA	Letter of Credit/BG	-	-	NA	10.00	[ICRA]A2
NA	Unallocated Limits	-	-	NA	1.11	[ICRA]BBB+ (Stable)

Source: Acrysil Limited

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