

September 10, 2019

Acrysil Limited: Ratings reaffirmed; outlook revised to positive; rated amount enhanced

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit/EPC/FBP	62.00	72.00	[ICRA]BBB+; Reaffirmed; Outlook revised to Positive from Stable
Fund-based Term Loan	21.00	22.92	[ICRA]BBB+; Reaffirmed; Outlook revised to Positive from Stable
Non-Fund based Letter of credit/BG/FC	10.00	10.00	[ICRA]A2; Reaffirmed
Unallocated Limits	1.11	0.08	[ICRA]BBB+; Reaffirmed; Outlook revised to Positive from Stable
Total	94.11	105.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in rating outlook to Positive from Stable favourably factors in the healthy revenue growth in FY2019, with sustained improvement in profit margins on the back of price hike, comfortable gearing levels and above-average debt coverage indicators. This along with the equity infusion by way of convertible warrants by October 2019, is expected to improve the capital structure and support the future growth synergies. Further, the ratings continue to favourably factor in the extensive experience of the promoters, the established position of the Group in the granite-based kitchen sink industry along with the diversified product portfolio.

The ratings, however, are constrained by the working capital-intensive business due to the high inventory holding period, the relatively long collection cycle and the vulnerability of profitability to raw material prices. Further, as exports contribute ~70% to the company's revenues, it remains susceptible to competition from other established players. However, it benefits from the better cost efficiency as the manufacturing operations are based out of India. Further, the company's profitability remains vulnerable to adverse forex movements, although the risk is partially mitigated by natural hedge in terms of imports.

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 apart from established relationship with suppliers and customers are expected to support the business profile.

Healthy revenue growth in FY2019 coupled with comfortable gearing and debt coverage indicators- The operating income (consolidated) of the Group witnessed a growth of 28% in FY2019 to Rs. 251.79 crore from Rs. 196.60 crore in FY2018 due to increase in sales volume and realisations. Going forward, ICRA expects AL to continue its growth trajectory supported by recent agreement with GROHE and increase in capacities. The capital structure remained comfortable with

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gearing at 0.71 times in FY2019 (consolidated) and is expected to remain comfortable supported by equity infusion (Rs. 8.25 crore)¹ by way of convertible warrants by October 2019. The debt coverage indicators remained above average with interest coverage at 3.65 times, NCA/Total Debt at 24% and DSCR at 1.71 times in FY2019.

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

Credit challenges

Working capital intensive business and negative free cash flows due to high capex– The company's financial risk profile is marked by high working capital intensity (NWC/OI at 38% as on March 31, 2019) owing to high inventory holding and relatively long receivable cycle, leading to full utilisation of working capital limits at 92% during the 15-month period from May 2018 to July 2019. Free cash flow remained negative during past fiscals due to high capital expenditure.

Vulnerability of profitability to fluctuation in raw material prices and foreign exchange – AL's profitability remains vulnerable to adverse movement in the price of key raw materials i.e. resins because of its inability to pass on any increase in prices for ongoing orders. The operating margin, however, increased to 16.91% in FY2019 from 13.80% in FY2018 (consolidated) mainly due to increase in scale of operations and revision in prices of granite sinks. 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 established multinational companies in the international kitchen sink industry, though it benefits in terms of better cost efficiency. Further, the company is placed favourably in the domestic market.

Liquidity position: Adequate

AL has debt repayments of around Rs. 10 crore in next two years and cash accruals are expected to remain adequate against debt repayments. Unencumbered cash balance of Rs. 11.81 crore as on March 31, 2019 will provide additional support (on consolidated basis). The cushion in working capital remains limited given the high inventory maintained by the company.

Rating sensitivities

Positive triggers- ICRA could upgrade AL's rating if the company demonstrates sustainable improvement in the liquidity position along with specific credit metrics that include (1) OPBDITA/Interest of 5 times or above on sustainable basis (2) Total debt/OPBDITA remaining at 2 times or below on sustainable basis.

Negative triggers- Negative pressure on AL's rating could arise, if there is a decline in scale of operations along with moderation in profitability and any further stretch in the working capital cycle. Further, OPBDITA/Interest below 3.5 times or Total debt/OPBDITA of 3 times or higher may also lead to negative trigger.

¹ The company has issued 1,50,000 convertible warrants at a price of Rs. 550 each warrant, which is to be converted into equity share of Rs. 10 each within a period of 18 months from issue i.e by October 2019

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of AL, 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).

About the company:

Acrysil Limited was incorporated in 1987 by a first generation promoter, Mr. Ashwin Parekh, and 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 and its manufacturing plant is at Bhavnagar, Gujarat which is ISO: 9001:2008 certified. At present, the unit has a total installed manufacturing capacity of 5,00,000 sinks per annum, which is to be enhanced to 5,50,000 sinks per annum at a capital outlay of Rs. 10.00 crore in FY2020.

The Group also manufactures stainless steel kitchen sinks mainly for the domestic market, through 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	
	FY2018	FY2019	FY2018	FY2019
Operating Income (Rs. crore)	153.90	198.95	196.60	251.79
PAT (Rs. crore)	6.41	11.78	12.24	17.48
OPBDIT/ OI (%)	11.96%	15.52%	13.80%	16.91%
RoCE (%)	9.46%	13.14%	11.71%	16.34%
Total Debt/ TNW (times)	0.72	0.72	0.77	0.71
Total Debt/ OPBDIT (times)	4.12	2.68	3.38	2.28
Interest Coverage (times)	2.93	3.85	4.20	3.65
NWC/ OI (%)	44%	42%	40%	38%

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating 10-September 2019	Date & Rating in	Date & Rating in	Date & Rating in	
					FY2019	FY2018	FY2017	
1	Cash Credit/EPC/FBP	Long Term	72.00	60.86*	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
2	Term Loan	Long Term	22.92	17.70*	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
3	Letter of Credit	Short Term	10.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	
4	Unallocated Limits	Long Term/Short Term	0.08	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
Total			105.00					

as on March 31, 2019

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
N.A.	Cash Credit	-	9.50%	-	72.00	[ICRA]BBB+ (Positive)
N.A.	Term Loan	FY2014	9.25%	FY2025	22.92	[ICRA]BBB+ (Positive)
N.A.	Letter of Credit				10.00	[ICRA]A2
N.A.	Unallocated Limits				0.08	[ICRA]BBB+ (Positive)

Source: Acrysil Limited

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