

January 06, 2020

Parcos Tiles LLP: [ICRA]D assigned

Summary of rating action

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	20.32	[ICRA]D; assigned
Non-fund based Limits	4.00	[ICRA]D; assigned
Unallocated Limits	0.68	[ICRA]D; assigned
Total	25.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating primarily considers the delays in servicing debt obligations by Parcos Tiles LLP (PTL) owing to its poor liquidity position. The delay is caused by sluggish demand of nano vitrified twin charge tiles due to which the scale remained lower-than-anticipated, leading to losses at the net level and erosion of net worth. Further, high working capital requirements and impending repayment obligations resulted in cash flow mismatches. The ratings continue to factor in the firm's weak financial risk profile, intense competition in the ceramic industry and the exposure of PTL's profitability to volatility in raw material and fuel prices.

The ratings, however, favourably factor in the proximity to raw material sources by virtue of its presence in Morbi (Gujarat).

Key rating drivers

Credit strengths

Location-specific advantage - The manufacturing facility of the firm is located in the ceramic hub of Morbi (Gujarat), which provides easy access to quality raw materials such as body clay, feldspar and glazed frit in Gujarat and Rajasthan.

Credit challenges

Delays in servicing debt obligations - The firm has delayed in servicing the debt obligations of its term loan facility. Lower-than-anticipated operating income and losses thereon during the initial years of operations, high working capital requirements and impending debt repayment obligations resulted in cash flow mismatches.

Weak financial risk profile – The firm witnessed de-growth of 43% in FY2019 and reported a revenue of Rs. 12.75 crore against Rs. 22.49 crore in FY2018 mainly because of the sluggish demand of nano vitrified twin charge tiles due to which the scale remained lower-than-anticipated leading to losses at the net level and erosion of net worth. The debt coverage indicators remained poor with an interest coverage of 0.46 times, TD/OPBDITA of 22.36 times and DSCR of 0.50 times. To support the liquidity position, creditors days were stretched in FY2018 and FY2019.

Margins vulnerable to intense competition and cyclical in real-estate industry - The ceramic tile manufacturing industry is highly fragmented with competition from the organised as well as the unorganised segments, most of which are located in Gujarat and operate on low cost structures, creating pressure on the prices. Further, the real estate industry accounts for the maximum uptake of ceramic tiles. Hence PTL's profitability and cash flows are likely to remain vulnerable to the cyclical in the real estate industry.

Vulnerability of profitability to fluctuation in raw material and energy costs - Raw material and fuel are the two major components determining the cost competitiveness in the ceramic industry. The firm has, however, little control over the prices of its key inputs such as natural gas and raw materials. Thus, profitability is expected to remain weak in the near to medium term.

Liquidity position: Poor

PTL's liquidity position is poor as reflected by delays in debt servicing on term loans. Further, the working capital limits of Rs. 8.00 crore remained almost fully utilised from August 2018 to October 2019. Lower-than-expected cash accruals against scheduled debt repayments will keep the firm's liquidity position tight in the near future. Hence, infusion of capital by partners/unsecured loan will remain crucial to support the liquidity and timely debt servicing.

Rating sensitivities

Positive triggers- Regularisation of debt serving for more than three months will be a key rating determinant for a higher rating.

Negative triggers- Not Applicable

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 statements of the rated entity

About the company

PTL was established as a limited liability partnership firm in April 2016 by Mr. Sanjay Bhatiya and family members. The firm was into manufacturing of vitrified nano twin charge tiles and started its commercial operations from April 2017. However, due to lower demand for the same from H2 FY2019, the firm started manufacturing porcelain tiles of size 600mmX600mm, 600mmX1200mm and 1200mmX1200mm. The manufacturing unit is located at Morbi, Gujarat, with an installed capacity to produce 9000 boxes per day.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	22.53	12.76
PAT (Rs. crore)	-9.70	-4.89
OPBDIT/OI (%)	(12.10%)	8.71%
RoCE (%)	-	(8.99%)
Total Debt/TNW (times)	5.94	-50.86
Total Debt/OPBDIT (times)	-9.54	22.36
Interest Coverage (times)	-1.01	0.46

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating 06-Jan-2020	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1 Cash Credit	Long Term	8.00	7.97*	[ICRA]D	-	-	-
2 Term Loan	Long Term	12.32	11.79*	[ICRA]D	-	-	-
3 Bank Guarantee	Short Term	4.00		[ICRA]D	-	-	-
4 Unallocated Limits	Long Term	0.68		[ICRA]D	-	-	-
Total		25.00					

* outstanding as on October 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	-	13.70%	-	8.00	[ICRA]D
N.A.	Term Loan	FY2018	13.55%	FY2024	12.32	[ICRA]D
N.A.	Bank Guarantee	-	-	-	4.00	[ICRA]D
N.A.	Unallocated Limits	-	-	-	0.68	[ICRA]D

Source: Parcos Tiles LLP

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