

January 21, 2020

Gemstone Ceramic LLP: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	6.80	6.80	[ICRA]B (Stable); reaffirmed
Cash Credit	3.00	3.00	[ICRA]B (Stable); reaffirmed
Bank Guarantee	1.00	1.00	[ICRA]A4; reaffirmed
Total	10.80	10.80	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation in the ratings factors in Gemstone Ceramic LLP's (GCL) below-average financial risk profile, marked by the nascent stage of the firm's operation, a leveraged capital structure, below-average debt coverage indicators and high working capital intensity. The ratings also factor in the intense competition in the tile industry and the vulnerability of the profitability to volatility in raw material and fuel prices. ICRA further considers the exposure of the company's operations and cash flows to the cyclical nature in the real estate industry (the main end-user sector).

The ratings, however, favourably factor in the adequate experience of partners in the ceramic tiles industry. Further, the ratings draw comfort from the company's proximity to raw material sources by virtue of its presence in Morbi (Gujarat) and the increase in its operating income (OI), post the stabilisation of operations in FY2019.

The Stable outlook on the [ICRA]B rating reflects ICRA's opinion that the firm will continue to benefit from the extensive experience of its promoters in the tiles industry.

Credit strengths

Extensive experience of promoters in ceramic industry - The key promoters, Mr. Ketan Patel, Mr. Hasmukh Patel, Mr. Kamlesh Patel and Mr. Ashokkumar Kalariya, have extensive experience in the ceramic industry vide their association with another entity in a similar business line. The firm also benefits from the established relationship of the promoters with the dealers.

Location-specific advantage - The location of the firm's manufacturing facility in the ceramic tiles manufacturing hub of Morbi enables it to procure quality raw materials at competitive prices and save on transportation cost.

Credit challenges

Moderate scale of operation; intense industry competition - GCL commenced its operations in February 2019. The firm reported a revenue of Rs. 1.43 crore in FY2019. The firm's operation has scaled up, post stabilisation of operation, as reflected from the revenues of ~Rs. 18.97 crore in 9MFY2020. However, the overall scale of operation remains small, with revenue estimated at ~Rs. 24 crore by the end of fiscal FY2020. Further, the company faces intense competition from established tile manufacturers as well as unorganised players, which limits its pricing flexibility.

Below-average financial risk profile - The firm's financial risk profile remains below-average, marked by leveraged capital structure and below-average debt coverage indicators. The capital structure is likely to remain leveraged, with an

estimated gearing of 2.08 times and TOL/TNW of 2.30 times in FY2020. The debt-coverage indicators are also likely to remain average with an interest coverage of 2.30 times and DSCR of 1.10 times.

Profitability susceptible to intense competition and cyclicity in real estate industry – The ceramic tile-manufacturing industry is fragmented, which results in intense competition and exerts pressure on the profit margins. Further, the real estate industry is the major consumer of ceramic tiles and hence GCL’s profitability and cash flows are likely to remain vulnerable to the cyclicity in the real estate industry.

Vulnerability of profitability and cash flows to cyclicity in real estate industry - The real estate industry is the key end user of tiles. Hence, GCL's profitability and cash flows are likely to remain vulnerable to the inherent cyclicity of the industry.

Vulnerability of profitability to fluctuations in raw material and fuel costs – Raw material and fuel are the two major manufacturing cost components that determine the cost competitiveness of a player in the ceramic industry. Since GCL has limited control over key input prices such as those of raw material and fuel, adverse movements in raw material and gas prices can expose its profitability to fluctuations.

Liquidity position: Stretched

GCL’s liquidity position is stretched as the scheduled repayments in FY2020 and FY2021 are expected to tightly match the cash accruals. The promoters infused unsecured loan of Rs. 2.97 crore in the current fiscal, which along with a cushion of Rs. 1.61 crore in the working capital limit as on November 30, 2019, will support incremental working capital requirement. The average utilisation of working capital limit stood moderated at ~48% over 8 months (April 19-November 19).

Rating sensitivities

Positive triggers:

- Sustained improvement in revenue and profitability, leading to improvement in key credit metrics.
- Strengthening of net worth, leading to improvement in capital structure and working capital cycle.

Negative triggers:

- Substantial decline in scale of operations or erosion in operating margins, leading to moderation in return indicators.
- Any large debt-funded capex or stretch in working capital cycle adversely impacting the liquidity profile and other key credit metrics.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The assigned ratings are based on the issuer's standalone financial statements

About the company:

Established in March 2018, GCL is setting up a greenfield project at Morbi to manufacture glazed wall tiles. The unit has an estimated installed capacity of producing ~28,800 MT of tiles annually. The firm's commercial operation commenced from February 2019. The partners have adequate experience in the ceramic industry vide their association with another entity.

Key financial indicators (audited)

	FY2019 [^]
Operating Income (Rs. crore)	1.43
PAT (Rs. crore)	(0.87)
OPBDITA/OI (%)	9.14%
ROCE (%)	-
Total Debt/TNW (times)	1.89
Total Debt/OPBDITA (times)	12.54
Interest Coverage (times)	0.88
DSCR	0.97

Source: CGL financials and ICRA research; [^]Operations commenced from February 2019

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

All figures in Rs. Crore

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					21-Jan-2020	29-Nov-18	-	-
1	Cash Credit	Long Term	3.00	1.48 [^]	[ICRA]B (Stable)	[ICRA]B (Stable)	-	-
2	Term Loan	Long Term	6.80	6.80 [^]	[ICRA]B (Stable)	[ICRA]B (Stable)	-	-
3	Bank Guarantee	Short Term	1.00	-	[ICRA]A4	[ICRA]A4	-	-

[^]Outstanding as on March 31, 2019; Source: GCL financials

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	-	-	-	3.00	[ICRA]B (Stable)
NA	Term Loan	FY2019	-	FY2024	6.80	[ICRA]B (Stable)
NA	Bank Guarantee	-	-	-	1.00	[ICRA]A4

Source: Gemstone Ceramic LLP

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