January 21, 2020

Caramia Granito LLP: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	19.50	19.50	[ICRA]B+(Stable); reaffirmed
Cash Credit	9.00	9.00	[ICRA]B+(Stable); reaffirmed
Bank Guarantee	1.50	1.50	[ICRA]A4; reaffirmed
Total	**30.00**	**30.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation continues to factor in Caramia Granito LLP's (CGL) below-average financial risk profile, marked by moderate scale, leveraged capital structure, below-average debt coverage indicators and stretched working capital cycle. The ratings also consider the intense competition in the tile industry and the vulnerability of profitability to volatility in raw material and fuel prices. ICRA further considers the exposure of the company's operations and cash flows to the cyclicality in the real estate industry (the main end-user sector).

The ratings, however, favourably factor in the adequate experience of partners in the tiles industry and the firm's proximity to raw material sources because of its presence in Morbi (Gujarat).

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 promoters have decade-long experience vide their association with other companies in the ceramic industry. CGL benefits from the established marketing channels of Group entities.

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

Modest scale of operations - The firm commenced its operations on June 2018 and reported revenue of Rs. 21.65 crore in 10MFY2019. The revenue increased to Rs. 32.65 crore in 9MFY2020 on the back of healthy volume growth. However, the scale of operations is expected to remain modest, with an estimated revenue of Rs. 40-45 crore by the end of fiscal FY2020. The operating profitability was 11.57% in FY2019. However, higher outgo towards depreciation led to loss at the net level in FY2019.

Below-average financial risk profile – Elevated debt level and modest net-worth base resulted in a leveraged capital structure as evident from the gearing of 2.73 times and TOL/TNW of 3.32 times as on March 31, 2019. The debt-coverage indicators also remained below-average on the back of weak profitability – Total Debt/OPBDITA and NCA/TD of 8.90 times and 3% in FY2019, respectively. The capital structure is likely to improve over FY2020-22, with the scheduled repayment of term loan debt. The company's working capital intensity in FY2019 remained high, at 34%, owing to elongated receivable and high inventory holding.

Profitability susceptible to intense competition and cyclicality 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 CGL's profitability and cash flows are likely to remain vulnerable to the cyclicality in the real estate 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 CGL 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

CGL'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. 1.21 crore in the current fiscal, which along with a cushion of Rs. 2.49 crore in the working capital limit as on November 30, 2019, will support incremental working capital requirements. The average utilisation of working capital limit stood moderated at ~56% over 9 months (March 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 April 2017, CGL manufactures soluble salt vitrified tiles at its facility in Morbi (Gujarat). The unit has an estimated installed capacity of producing ~56,700 MT of tiles annually. The unit became fully operational in June 2018.

In FY2019, the company reported a net loss of Rs. 3.50 crore on an operating income (OI) of Rs. 21.56 crore.

Key financial indicators (audited)

	FY2019^
Operating Income (Rs. crore)	21.56
PAT (Rs. crore)	(3.50)
OPBDITA/OI (%)	11.57%
ROCE (%)	-
Total Debt/TNW (times)	2.73
Total Debt/OPBDITA (times)	8.90
Interest Coverage (times)	1.35
DSCR	1.39

Source: CGL financials and ICRA research ^ Operations commenced from June 2018

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	17-Jan-19	19-Dec-17	-
1	Cash Credit	Long Term	9.00	5.09^	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B (Stable)	-
2	Term Loan	Long Term	19.50	16.02^	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B (Stable)	-
3	Bank Guarantee	Short Term	1.50	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	-

^Outstanding as on March 31, 2019; Source: CGL 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	-	-	-	9.00	[ICRA]B+ (Stable)
NA	Term Loan	FY2018	-	FY2024	19.50	[ICRA]B+ (Stable)
NA	Bank Guarantee	-	-	-	1.50	[ICRA]A4

Source: Caramia Granito LLP

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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