April 07, 2022

# Real Granito Pvt. Ltd.: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Fund Based - Term Loan | 3.85 | 3.85 | [ICRA]B+ (Stable) reaffirmed |
| Fund Based - Cash Credit | 12.00 | 12.00 | [ICRA]B+ (Stable) reaffirmed |
| Non-fund Based - Letter of Credit/Bank Guarantee | 2.00 | 2.00 | [ICRA]A4 reaffirmed |
| **Total** | **17.85** | **17.85** | |

**Instrument details are provided in Annexure-1*

## Rationale

The ratings remain constrained by Real Granito Pvt. Ltd.'s (RGPL) moderate financial risk profile, characterised by its modest scale operations, a moderate capital structure and coverage indicators, along with a high working capital intensity. The ratings factor in the intense competition in the ceramic industry and the exposure of the company's profitability to the volatility in raw material and fuel prices. The ratings further note that RGPL's operations and cash flows are exposed to the cyclicality in the real estate industry, which is the main end-user sector.

The ratings, however, favourably factor in the extensive experience of the promoters in the ceramic industry and the proximity to raw material sources, by virtue of its presence in Morbi (Gujarat).

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that RGPL is expected to maintain its business position.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of promoters -** The company is managed by directors who have an extensive experience in the ceramic industry through their association with other entities involved in the ceramic business.

**Location-specific advantage -** The company benefits from low transportation costs and easy access to quality raw materials, and power and fuel sources, owing to the plant's strategic location in the Morbi region of Gujarat, which is considered to be the ceramic hub of India.

### Credit challenges

**Moderate financial risk profile -** RGPL's scale of operations remains moderate with an operating income of Rs. 47.5 crore in FY2021. In 11M FY2022, the company has achieved revenues of Rs. 55.8 crore (on a provisional basis). Further, its operating and net profitability was moderate at 12.8% and 3.4%, respectively, in FY2021. RGPL's net worth was eroded due to net losses in FY2018 and FY2019, which coupled with high debt levels, has led to an adverse capital structure. The coverage indicators also remained moderate with total debt/OPBDITA at 4.2 times and NCA/TD at 15% in FY2021. Further, the working capital intensity remained high with NWC/OI at 31% in FY2021, because of elongated receivables and high inventory holding. Consequently, the creditors also remained stretched to support the liquidity.

**Vulnerability of profitability to adverse fluctuations in raw material and fuel prices -** Raw material (body clay, feldspar and glazed frit) and fuel (PNG) are the two major cost components for the company and thus, its profitability remains susceptible to the fluctuations in raw material and fuel prices, given its limited ability to pass on the rise to customers amid the intense industry competition. Further, ICRA notes that the gas prices have witnessed significant upsurge in the recent past. Despite the periodic price revisions undertaken by the company, its ability to continue to pass on the same in a timely manner remains to be seen and could exert pressure on its margins in FY2022.

**Intense competition and cyclicality in real estate industry -** The ceramic tile industry is characterised by stiff competition because of low entry barriers. The presence of both organised and numerous unorganised players in the industry limits RGPL's pricing flexibility and the bargaining power with customers, thereby putting pressure on its revenues and margins. Further, the real estate industry is the major end-user of ceramic tiles, and hence the company's profitability and cash flows are highly vulnerable to the cyclicality in the real estate industry.

### Liquidity position: Stretched

RGPL's liquidity is stretched because of high working capital requirements, which has resulted in full utilisation of its working capital limits. In FY2022, the liquidity was supported by an emergency credit line of ~Rs. 1.5 crore. Going forward, timely support from promoters through equity infusion/unsecured loans will remain critical in case of any cash flow mismatches.

## Rating sensitivities

**Positive factors -** ICRA could upgrade RGPL's ratings if sustained increase in revenues and profitability leads to higher-than-expected cash accruals. This, along with better working capital management and significant improvement in net worth, leading to an improvement in the overall financial risk profile, may also result in a rating upgrade.

**Negative factors** - Pressure on RGPL's ratings could arise if a decline in revenues and profitability leads to lower-than-expected cash accruals, or if any major debt-funded capital expenditure, or stretch in the working capital cycle, further weakens the company's capital structure and liquidity profile.

### Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group Support** | Not applicable |
| **Consolidation/Standalone** | The ratings are based on the standalone financial statements of the rated entity. |

## About the company

Real Granito Pvt. Ltd., incorporated in 2010, was involved in the manufacture of single-charge vitrified tiles before it started manufacturing glaze vitrified tiles in FY2019. Its manufacturing facility is at Morbi, Rajkot (Gujarat), with an installed capacity of ~75,000 MTPA (~21 lakh boxes per annum). The company is managed by Directors who have an extensive experience in the ceramic industry through their association with other entities involved in the ceramic business.

### Key financial indicators (audited)

| Standalone | FY2020 | FY2021 |
|---|---|---|
| Operating Income (Rs. crore) | 51.5 | 47.5 |
| PAT (Rs. crore) | 0.1 | 1.6 |
| OPBDIT/OI (%) | 59.8% | 51.6% |
| PAT/OI (%) | 6.7% | -8.1% |
| Total Outside Liabilities/Tangible Net Worth (times) | 2.2 | 2.0 |
| Total Debt/OPBDIT (times) | 3.3 | 4.9 |
| Interest Coverage (times) | 2.6 | 1.7 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2023) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as on Dec-21 (Rs. crore) | Date & Rating on | Date & Rating in FY2022 | Date & Rating in FY2021 | Date & Rating in FY2020 |
| | | | | | Apr 7, 2022 | Apr 7, 2021 | Apr 8, 2020 | - |
| 1 | Term Loan | Long-term | 3.85 | 5.08 | [ICRA]B+ (Stable) | [ICRA]B+ (Stable) | [ICRA]B (Stable) | - |
| 2 | Cash Credit | Long-term | 12.00 | NA | [ICRA]B+ (Stable) | [ICRA]B+ (Stable) | [ICRA]B (Stable) | - |
| 3 | Bank Guarantee | Short-term | 1.50 | NA | [ICRA]A4 | [ICRA]A4 | [ICRA]A4 | - |
| 4 | Letter of Credit | Short-term | 0.50 | NA | [ICRA]A4 | [ICRA]A4 | [ICRA]A4 | - |

*Amount in Rs. crore*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term Fund based Term Loan | Simple |
| Long-term Fund based Cash Credit | Simple |
| Short-term Non-fund based Bank Guarantee | Very Simple |
| Short-term Non-fund based Letter of Credit | Very Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA’s website: [www.icra.in](http://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 | Term Loan | FY2018 | 9.8% | FY2025 | 3.85 | [ICRA]B+ (Stable) |
| NA | Cash Credit | NA | NA | NA | 12.00 | [ICRA]B+ (Stable) |
| NA | Bank Guarantee | NA | NA | NA | 1.50 | [ICRA]A4 |
| NA | Letter of Credit | NA | NA | NA | 0.50 | [ICRA]A4 |

*Source: Real Granito Pvt. Ltd.*

## Annexure-2: List of entities considered for consolidated analysis: Not applicable

## ANALYST CONTACTS

**Rajeshwar Burla**
+91 40 4067 527
rajeshwar.burla@icraindia.com

**Ashish Modani**
+91 22 6114 3414
ashish.modani@icraindia.com

**Mayank Agrawal**
+91 79 4027 1514
mayank.agrawal@icraindia.com

**Anurag Bhootra**
+91 79 4027 1526
anurag.bhootra@icraindia.com

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**
+91 80 4332 6401
jayantac@icraindia.com

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## 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

# ICRA Limited

## Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

## Branches