

December 29, 2022

## Carysil Steel Limited: [ICRA]A-(CE) (Stable)/[ICRA]A2+ (CE) withdrawn and [ICRA]BBB+ (Stable)/[ICRA]A2 simultaneously assigned; rated limits enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – cash credit	4.25	10.00	[ICRA]A-(CE) (Stable) withdrawn; [ICRA]BBB+ (Stable) assigned simultaneously/ assigned for enhanced amount
Long-term – Fund-based working capital term loan	-	1.18	[ICRA]BBB+ (Stable); assigned
Long-term – Fund-based - term loan	12.48	17.30	[ICRA]A-(CE) (Stable) withdrawn; [ICRA]BBB+ (Stable) assigned simultaneously/ assigned for enhanced amount
Short-term – Non-fund based – foreign bill discounting	-	2.00	[ICRA]A2; assigned
Short-term – Non-fund based – pre-settlement risk	-	1.00	[ICRA]A2; assigned
Short-term – Non-fund based – letter of credit	0.60	0.60	[ICRA]A2+(CE) withdrawn; [ICRA]A2 assigned simultaneously
<b>Total</b>	<b>17.33</b>	<b>32.08</b>	

\*Instrument details are provided in Annexure-I

### Rationale

ICRA has withdrawn its rating of [ICRA]A-(CE)(Stable)/[ICRA]A2+(CE) for the bank facilities of Carysil Steel Limited (CSL/the company)(erstwhile Acrysil Steel Limited) and has simultaneously assigned a fresh rating of [ICRA]BBB+(Stable)/[ICRA]A2 for these facilities. The rating action follows the Guidance Note and the FAQ document issued by the Reserve Bank of India (RBI) to the credit rating agencies on April 22, 2022, and July 26, 2022, respectively, guiding that the benefit of a corporate guarantee that does not meet the evaluation mechanism/ criteria defined by the RBI is not to be considered while assigning the credit enhanced (CE) ratings<sup>1</sup>. Among other considerations, the [ICRA]A-(CE)(Stable)/[ICRA]A2+(CE) ratings drew comfort from the presence of a corporate guarantee extended by CSL’s parent to the lenders of the rated bank facilities. For assigning the rating, ICRA had assessed the attributes of the guarantee issued by Carysil Limited (Carysil) in favour of the rated facility. While the guarantee was legally enforceable, irrevocable, unconditional and covered the entire amount and tenor of the rated facility, and met all the other attributes of a strong guarantee, it did not have a well-defined invocation and payment mechanism. Taking cognizance of the above, ICRA had assigned a rating of [ICRA]A-(CE) (Stable)/[ICRA]A2+(CE) to the said facility against the unsupported rating of [ICRA]BBB+/[ICRA]A2 and in relation to the guarantor’s rating of [ICRA]A (Stable)/[ICRA]A2+.

To align itself with the aforesaid regulatory guidance, ICRA would no longer be considering in its credit assessments the benefit of a guarantee that lacks an invocation and payment mechanism, though such a support represents a relatively stronger expression of commitment on the part of the support provider for the supported facilities in comparison with support that is only implicit in nature. Accordingly, ICRA has assigned the rating of [ICRA]BBB+(Stable)/[ICRA]A2 to the above bank facilities of CSL, while withdrawing the [ICRA]A-(CE) (Stable)/[ICRA]A2+(CE) rating.

<sup>1</sup> The RBI has permitted the existing (CE) ratings to continue until the residual tenor of the loan. However, for the (CE) ratings outstanding on working capital facilities that are renewed periodically (like cash credit facilities that fall due for renewal at an annual frequency), the RBI has separately guided that the residual tenor of these facilities is to be considered as the time remaining until the next due date of renewal, or six months from the date of the FAQ document, whichever is later.

ICRA notes that CSL and Carysil have business linkages and CSL is of strategic importance to its parent. Therefore, ICRA expects Carysil to be willing to extend timely financial support to CSL, as and when needed. CSL's rating factors in the above strengths, arising from the linkages with a parent company with a relatively stronger credit profile, even as the benefit of the guarantee extended by Carysil has been ignored.

The ratings continue to factor in the strong parentage and vast experience of the promoters in the kitchen sink industry along with the company's comfortable capital structure and debt coverage metrics. Also, it derives comfort from the healthy utilisation level of installed capacity and stable profit margins over the past years. The ratings, however, continue to remain constrained by the company's modest scale of operations, along with the high working capital intensive business. The ratings also factor in the vulnerability of CSL's revenue and profitability to volatility in prices of raw materials and intense competition in the industry from organised and unorganised players, which limits the company's pricing power.

The Stable outlook on the long-term rating reflects ICRA's expectations that CSL will continue to benefit from its operational linkages with Carysil while maintaining a comfortable capital structure and coverage indicators.

## Key rating drivers and their description

### Credit strengths

**Strong parentage and experience of the promoters in kitchen sink industry** – CSL is a subsidiary of Carysil, which is the leading manufacturer of granite-based kitchen sinks (also known as 'Composite Quartz Sinks') in India and, hence, benefits from its established brand name. The company, apart from receiving operational and financial support from its parent, also enjoys established relationships with suppliers as well as dealers and distributors. Further, the promoters have more than three decades of experience in the kitchen sink industry as the parent, Carysil, was incorporated in 1987.

**Healthy capacity utilisation levels and stable profitability margins** – The manufacturing plant of the company is located at Bhavnagar, Gujarat with an installed capacity of manufacturing 60,000 kitchen sinks using the traditional pressing line and 70,000 (enhanced from 51,600 in FY2022) kitchen sinks using the fabrication line. The capacity utilisation level remained healthy in FY2022 as the installed capacity of both lines were utilised ~90% during the year with the increase in demand of its products. The profitability of the company remained largely stable in the last four years marked by operating margin, which remained in the range-bound between 13-14%, while PAT margin remained ~5-7%.

**Comfortable gearing and debt coverage indicators** – The gearing of the company remained comfortable, at 0.7 time in FY2022. Moreover, the debt coverage indicators were above average, with interest coverage at 6.6 times, NCA/Total Debt at 29% and DSCR at 3.2 times in FY2022.

### Credit challenges

**Modest scale of operations** – The company's scale, remained modest at an operating income (OI) of ~Rs. 46 crore in FY2022, although posting a jump of 95% on YoY basis in FY2022. The company reported an OI of ~Rs.27 crore in H1FY2023.

**Working capital intensive nature of business** – The working capital intensity remained high, at 28% as on March 31, 2022, mainly driven by high receivable and inventory days as it is required to maintain an inventory of various designs to meet the urgent requirement.

**Exposure to intense competition** – The presence of both large and organised players as well as numerous small-scale manufacturers, coupled with low-entry barriers in the kitchen sink industry, elevates the competition. Nevertheless, comfort can be drawn from the strong brand presence, the established distribution network of the parent company and the higher focus on Quadro sinks, which are relatively high value-added products with limited competition.

**Exposure of margin to volatility in raw material prices** – CSL's profitability continues to be vulnerable to any price increase of the key raw material, stainless steel. The same had an impact on the margins in FY2022, wherein the margin dipped to some extent compared to FY2021, though still remaining at healthy levels.

## Liquidity position: Adequate

The liquidity position of CSL is adequate, given the expected cash accruals vis-à-vis the repayments as well as the undrawn working capital limit (average utilisation of the working capital limit was around 77% for the 12-month period ended on October 2021).

## Rating sensitivities

**Positive factors** – ICRA could upgrade CSL’s rating if there is a significant scale-up of operations coupled with improvement in margins, leading to overall improvement in liquidity and financial risk profile. Improvement in the credit profile of the parent company could also be a positive rating trigger.

**Negative factors** – Downward pressure on the ratings might arise if there is a deterioration in the credit profile of the parent company or weakening of linkages with the parent. Significant decline in scale and profitability or stretch in working capital cycle of CSL leading to decline in cash accruals and overall weakening of the financial/liquidity profile will be a negative for the rating, too.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Approach- Implicit Support from Parent or group</a> <a href="#">Policy on Withdrawal of Credit Ratings</a>
Parent/Group support	Support Provider: Carysil Limited (Carysil) The rating assigned to CSL factors in the likelihood of its parent company, Carysil [rated [ICRA]A(Stable)/[ICRA]A2+], to extend financial support to CSL, as and when needed.
Consolidation/Standalone	The ratings are based on the standalone financials of Carysil Steel Limited.

## About the company

Carysil Steel Limited is a subsidiary of Carysil Limited (Carysil) and manufactures stainless steel kitchen sinks. Carysil owns 84.99% of CSL’s equity shares and the rest is owned by the directors and promoters of Carysil. CSL’s plant in Bhavnagar, Gujarat, has an installed manufacturing capacity of 60,000 kitchen sinks, using the traditional pressing line, and a capacity for 70,000 kitchen sinks using the fabrication line.

## Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income	23.6	46.0
PAT	1.3	3.3
OPBDIT/OI	14.6%	13.4%
PAT/OI	5.5%	7.2%
Total outside liabilities/Tangible net worth (times)	0.9	1.3
Total debt/OPBDIT (times)	2.0	2.5
Interest coverage (times)	5.2	6.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2023)			Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Amount outstanding as of Oct 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Dec 29, 2022	Nov 19, 2021	Sep 09, 2020	Sep 10, 2019
1	Cash credit	10.00	-	[ICRA]A-(CE) (Stable) withdrawn; [ICRA]BBB+ (Stable) assigned simultaneously	[ICRA]A-(CE) (Stable)	[ICRA]BBB+(CE) (Stable)	[ICRA]BBB-(Stable)
2	Working capital term loan	1.18	1.18	[ICRA]BBB+ (Stable)	-	-	-
3	Term loan	17.30	17.30	[ICRA]A-(CE) (Stable) withdrawn; [ICRA]BBB+ (Stable) assigned simultaneously	[ICRA]A-(CE) (Stable)	[ICRA]BBB+(CE) (Stable)	[ICRA]BBB-(Stable)
4	Foreign bill discounting	2.00	-	[ICRA]A2	-	-	-
5	Pre-settlement risk	1.00	-	[ICRA]A2	-	-	-
6	Letter of credit	0.60	-	[ICRA]A2+(CE) withdrawn; [ICRA]A2 assigned simultaneously	[ICRA]A2+(CE)	[ICRA]A2 (CE)	[ICRA]A3

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Working capital term loan	Simple
Term loan	Simple
Foreign bill discounting	Very Simple
Pre-settlement risk	Very Simple
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: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	10.00	[ICRA]A-(CE) (Stable) withdrawn; [ICRA]BBB+ (Stable) assigned simultaneously
NA	Working capital term loan	FY2018	NA	FY2027	1.18	[ICRA]BBB+ (Stable)
NA	Term loan	FY2018	NA	FY2027	17.30	[ICRA]A-(CE) (Stable) withdrawn; [ICRA]BBB+ (Stable) assigned simultaneously
NA	Foreign bill discounting	NA	NA	NA	2.00	[ICRA]A2
NA	Pre-settlement risk	NA	NA	NA	1.00	[ICRA]A2
NA	Letter of credit	NA	NA	NA	0.60	[ICRA]A2+(CE) withdrawn; [ICRA]A2 assigned simultaneously

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis – Not Applicable**

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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](http://www.icra.in)

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