

September 06, 2017

Orinda Granito LLP

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based – Cash Credit	8.00	[ICRA]B (Stable); Assigned
Fund-based – Term Loan	16.50	[ICRA]B (Stable); Assigned
Non- fund based Limits	2.50	[ICRA]A4; Assigned
Total	27.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long term rating of [ICRA]B (pronounced ICRA B) to the Rs. 8.00 crore¹ cash credit limits and Rs. 16.50 crore term loans of Orinda Granito LLP (OGL). ICRA has also assigned a short term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 2.50 crore non fund based limits of OGL. The outlook on the long-term rating is 'Stable'.

Rationale

The assigned ratings are constrained by the nascent stage of the firm's operations as it is still in project stage and the risk associated with stabilisation of the plant as per the expected operating parameters. The ratings also remain constrained by the highly fragmented nature of the tiles industry, resulting in intense competitive pressures; the cyclical nature of the real estate industry which is the main consuming sector; and the exposure of the firm's profitability to volatility in raw material and gas prices as well as to adverse foreign exchange fluctuations. Further, the assigned ratings take into account the firm's financial profile, which is expected to remain weak in the near term given the debt-funded nature of the project and impending debt repayment.

The assigned ratings, however, favourably factor in the experience of the promoters in the ceramic industry, the location advantage of the firm for raw material procurement by virtue of its presence in Morbi (Gujarat) and the benefits derived from its associate concerns in terms of marketing and distribution.

Going forward, the timely commissioning of operations within the estimated cost will remain important from the credit perspective. The ability of the firm to establish a market for its products; scale up its operations in a profitable manner amidst intense competition and maintain a healthy financial risk profile will be some of the key rating sensitivities.

¹ 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

- **Extensive experience of the promoters in the ceramic industry-** The promoters have a longstanding experience of close to two decades in the ceramic industry vide their association with associate concerns, Neha Ceramic Industries and Nehani Tiles Private Limited, engaged in manufacture of ceramic wall tiles. The commissioning of OGL would enable the promoter group to enter into a new product segment of glazed vitrified floor tiles and would benefit from the dealer network and customer base of the associate companies.
- **Proximity to raw material sources-** The main raw materials required by OGL are clay mineral, natural minerals such as feldspar that are used to lower the firing temperature, and chemicals additives required for the shaping process. These raw materials are abundantly available in Gujarat and Rajasthan. The presence of the firm's manufacturing plant in the ceramic belt of Rajkot in Gujarat will benefit the firm in terms of uninterrupted supply of raw material and savings on transportation cost.

Credit weaknesses

- **Risks associated with stabilisation and successful scale up of operations -** Being in a nascent stage with the operations yet to commission (expected from October 2017) the firm remains exposed to risks associated with stabilisation and successful scale up of operations as per the expected parameters. Moreover, significant debt repayments coupled with long gestation period is likely to keep the credit profile constrained over the near term. Timely commissioning of operations without any significant cost overruns would thus remain a key rating sensitivity.
- **Intense competition and fragmented industry structure-** The ceramic industry is highly fragmented with competition both from both the organised and the unorganised segments apart from imports. The large number of players in the unorganised segment, most of who are based in Gujarat and operate with low-cost structures, create a pressure on price.
- **Vulnerability of profitability and cash flows to cyclicalities inherent in the real estate industry -** The real estate industry is a key end-user for vitrified tiles, hence the profitability and cash flows of the firm are expected to remain vulnerable to the inherent cyclicalities of the real estate industry.
- **Profitability to remain susceptible to volatility in raw material and fuel prices -** Raw material and fuel are the two major components determining the cost competitiveness for the ceramic industry. The firm can however exercise little control over the prices of key inputs such as natural gas and raw materials and thus the firm's margins are expected to remain exposed to the movement in raw material and gas prices and its ability to pass on any upward movements to the customers.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the firm:

Orinda Granito LLP (OGL), incorporated in July 2016, is setting up a greenfield project at Morbi in Gujarat to manufacture medium and large sized glazed vitrified tiles. The unit has an estimated installed capacity of producing 63,000 metric tonnes of tiles per annum.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table 1:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)^	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					September 2017			
1	Cash Credit	Long Term	8.00	-	[ICRA]B (Stable)	-	-	-
2	Term Loan	Long Term	16.50	16.50	[ICRA]B (Stable)	-	-	-
3	Bank Guarantee	Short Term	2.50	-	[ICRA]A4	-	-	-

^As on August 11, 2017

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

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	8.00	[ICRA]B (Stable)
Term Loan	-	-	FY2025	16.50	[ICRA]B (Stable)
Bank Guarantee	-	-	-	2.50	[ICRA]A4

Source: Firm

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