Press Release

Comet Granito Private Limited

December 02, 2022

Ratings

Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term- Fund Based Bank Facilities	405.50 (increased from Rs.355.50 crore)	IVR BBB/ Stable (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
Short Term- Bank Facilities	90.00	IVR A3+ (IVR A Three Plus)	Reaffirmed	Simple
Total	**495.50 (Rupees Four Hundred Ninety Five crore and Fifty lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Comet Granito Private Limited (CGPL) derives strength from its experienced promoters, increasing scale of operation and profitability, comfortable debt protection metrics, moderate capital structure and strategic location advantage. The ratings are, however, constrained on account of ongoing debt funded capex, the cyclicity in real estate industry and vulnerability to changes in raw material prices.

Key Rating Sensitivities

Upward Factors

- Sustained improvement in scale of operations and cash accruals along with operating cycle and debt protection metrics

Downward Factors

- Larger than anticipated debt-funded capex leading to sustained and major deterioration in its leverage and credit protection metrics
- Significant stretch in profitability and working capital cycle

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Well experienced promoters in the ceramic tiles industry

The promoters have over 15 years of experience in the ceramic tile industry which not only has enabled the company to scale up in the past fiscals but also garner repeat orders from its customers while procuring raw material from its suppliers at adequate terms. The promoters are backed by an adequate team of personnel having sound experience.

Location advantage given the presence in the ceramic cluster of Morbi, Gujarat

CGPL is located in the ceramic cluster of Morbi, Gujarat which accords it the location advantage in terms of raw material availability (Gujarat and Rajasthan) also effecting on the logistic costs as also skilled labour. Further, vicinity to Gandhidham sea port also provides necessary access for exports. Morbi, further remains well connected with the rest of the country through rail and road network.

Increasing scale of operation and profitability

CGPL's total operating income increased by 34.65% to Rs.606.00 crore in FY22 from Rs.453.83 crore in FY21. Total income has been on an increasing trend since last three years ended FY22, on account of increase in the export orders from Saudi Arabia, Kuwait, Egypt, UAE, the USA, etc. With the rising scale of operations, EBITDA improved to Rs.28.88 crore in FY22 from Rs.21.53 crore in FY21, while PAT increased to Rs.29.35 crore in FY22 from Rs.16.49 crore in FY21. Consequently, GCA improved to Rs.36.32 crore in FY22 from Rs.23.06 crore in FY21. EBITDA stood at 4.77% in FY22 (FY21: 4.75%) while PAT margin stood at 4.67% in FY22 (FY21: 3.54%).

Comfortable Debt protection metrics and Moderate capital structure

Debt protection metrics marked by interest coverage ratio improved to 10.41x in FY22 (FY21: 8.90x). Adjusted overall gearing ratio stood at 1.06x as on March 31, 2022 (0.24x as on March 31, 2021). Adjusted TOL/TNW ratio stood at 2.10x as on March 31, 2022 (1.96x as on March 31, 2021).

Key Rating Weaknesses

Ongoing debt funded capex

Currently, CGPL is catering to its export orders through trading activities due to excessive demand, and it intends to fulfil such demand through its own manufacturing facilities for higher profitability. Hence, CGPL is adding a manufacturing facility on a land area of 155,604 square meters at Wankaner, Morbi, Gujarat – 363621 having capacity of manufacturing ~23,500 square meters of large sized slabs per day, aggregating to 453 metric tonnes per day (MTPD), of various sizes viz. 1200 x 1200 mm, 1600 x 3200 mm, etc.

The estimated project cost is revised at Rs.413.13 (erstwhile Rs.342.74 crore) as the CGPL is envisaging installing some ancillary machineries related to packaging and automation of quality checking at different stages, etc. of ~Rs.39.00 crore which were not planned earlier, coupled with revision in the machinery cost. The additional cost is proposed to be funded through term loan of Rs.50.00 crore and balance through the unsecured loans from promoters. Initially, CGPL had envisaged to commence full-fledged operation from this project in October 2022, which is now revised to December end 2022. However, the partial production has already been started with 2 Kilns in August 2022 and remaining 1 Kiln will be operational in December end 2022.

Intense competition and cyclicality in real estate industry

The tile manufacturing industry is characterised by intense competition due to consequent low entry barriers, easy availability of raw material, limited initial capital investment, which results in limiting the pricing flexibility resulting in pressure on company's revenue and margins. Further sale of tiles is also linked to demand from real estate sector (key consuming sector), which is cyclical in nature.

Vulnerability to changes in raw material prices:

Major manufacturing cost component in ceramic tile industry are raw material (clay) and power, fuel which determine the cost competitiveness and company's profitability in the industry. Due to little control over the movement of raw material prices, the company is exposed to raw material price fluctuations impacting the cost structure and margins. Hence, the operating margin has been declining marginally.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Trading Companies

Rating Methodology for Manufacturing companies

Financial Ratios & Interpretation (Non- Financial Sector)

Criteria of assigning Rating Outlook

Liquidity – Adequate

CGPL's liquidity appears to be adequate with current ratio of 1.46x as on March 31, 2022 (1.20x as on March 31, 2021). Gross Cash Accruals (GCA) of the company stood at Rs.36.32 crore in FY22. Operating cycle of CGPL stood at 21 days in FY22 (FY21: 23 days) while average monthly peak working capital utilisation for the 12 months ended October 2022 remained at ~92%. CGPL has sufficient cash accruals as against the long-term debt repayment obligations.

About the Company

CGPL, incorporated in 2006, is in the manufacturing of tiles business and it sells its products under the brand name 'Granicer'. CGPL is situated at Morbi, Gujarat, which is the second largest cluster in the world and largest in India for tiles manufacturing business. The company's core business is manufacturing; however, it also undertakes trading business for orders in excess of its manufacturing capacity. The company is promoted by Mr. Prashantbhai Virjibhai Bhalodia. The company does major exports to Saudi Arabia and it has a special mention in the gazette where a lower anti-dumping duty (issued by GCC (Gulf Cooperation Council) of 17.6% is levied on the company, whereas the standard for the industry is 46%) which indicates that the company has an added advantage when compared to its competitors thus leading to higher export sales.

Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	453.83	606.00
EBITDA	21.53	28.88
PAT	16.49	29.35
Total Debt	29.67	145.54
Tangible Net Worth	62.51	113.45
Ratios		
EBITDA Margin (%)	4.75	4.77
PAT Margin (%)	3.54	4.67
Overall Gearing Ratio (x)	0.47	1.50

*Classification as per Infomerics' standard

Status of non-cooperation with previous CRA: CARE Ratings has continued the ratings in non-cooperation category vide Press release dated September 15, 2022.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned (June 09, 2022)	Date(s) & Rating(s) assigned in 2021-22 (February 16, 2022)	Date(s) & Rating(s) assigned in 2020-21 (November 26, 2020)	Date(s) & Rating(s) assigned in 2019-20
1.	Long term Bank Facilities	Long Term	405.50	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB-/ Stable	-
2.	Short term Bank Facilities	Short Term	90.00	IVR A3+	IVR A3+	IVR A3+	IVR A3	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	125.00	IVR BBB/ Stable
Term Loan	-	-	October 31, 2029	230.00	IVR BBB/ Stable
CCECL	-	-	-	0.50	IVR BBB/ Stable
Proposed Term Loan	-	-	-	50.00	IVR BBB/ Stable
Bill Discounting backed by LC	-	-	-	50.00	IVR A3+
Forward Cover	-	-	-	20.00	IVR A3+
Bank Guarantee	-	-	-	20.00	IVR A3+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-CGPL-dec22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.