Italica Granito Private Limited

July 12, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	23.90 (reduced from Rs. 32.77 crore)	IVR BBB+/ Stable Outlook (IVR Triple B plus with Stable outlook)	IVR BBB/ Stable Outlook (IVR Triple B with Stable outlook)	Upgraded	**Simple**
Short Term Bank Facilities	5.65	IVR A2 (IVR A two)	IVR A3+ (IVR A three plus)	Upgraded	**Simple**
Total	**29.55 (Rupees twenty nine crore and fifty five lakh)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has upgraded the ratings assigned to the bank facilities of Italica Granito Private Limited (IGPL) considering steady improvement witnessed in the topline and profits over the past few years. Further, the ratings continue to derive comfort from its experienced and resourceful promoters, comfortable capital structure with satisfactory debt protection metrics, strategic locational advantage and healthy demand outlook for ceramic tiles. However, these rating strengths continues to remain partially offset by short track record of its operations, susceptibility of its profitability to adverse fluctuations in prices of key raw materials and intense competition and exposure to cyclicality in real estate industry and working capital intensive nature of operation.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Improvement in the debt protection metrics of the company with interest coverage sustained

Downward Factors

- Decline in operating income and/or profitability impacting the debt coverage indicators on a sustained basis
- Moderation in the capital structure with deterioration in the overall gearing ratio.
- Elongation in the operating cycle adversely impacting the liquidity position

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Steady improvement witnessed in the topline and profits

The Company has witnessed steady y-o-y growth of 34% in FY24(prov.) backed by healthy demand of Indian tiles in the export market coupled with steady inflow of orders from the domestic market due to rise in the infrastructure sector. Revenue increased to Rs.552.15 crore in FY24 (prov.) from Rs.412.77 crore in FY23 (Rs. 311.29 crore in FY22). EBIDTA and PAT has increase to Rs.38.86 crore and Rs.18.07 crore in FY24 (prov.) from Rs.36.75 crore and Rs.17.11 crore in FY23 respectively. However, EBIDTA margin has moderated to 7.04% in FY24 (prov.) from 8.90%in FY23 due to rise in the raw material cost and the significant increase in revenue through trading activities by 239% in FY24(Prov.) to Rs. 112.00 cr. from Rs. 33.00 Cr. in FY23. This is to be noted, despite the industry's ongoing demand, the company has shifted to trading activities which have led to compromise in the operating margin. This along with an increase in an interest cost has also led to a decline in the PAT margin to 3.26% in FY24 (prov.) from 4.13% in FY23.

Comfortable capital structure with satisfactory debt protection metrics

The capital structure of the company includes subordinated unsecured loans from the promoters aggregating to Rs.12.94 crore as on March 31, 2024(prov.) (improved from Rs.12.52 crore in FY23 and Rs.8.15 crore in FY22). Taking the same as quasi equity the adjusted net worth of the company stood at Rs.97.49 crore as on March 31, 2024(Prov). The leverage ratios of the company continued to remain comfortable marked by the long-term debt equity ratio and the overall gearing ratio at 0.36x and 0.79x respectively as on March 31, 2024(prov.) improved from 0.61x and 1.00x as on March 31, 2023, respectively due to increase in the promoter's contribution as quasi equity and accretion of profit to the networth.

TOL/TNW remained comfortable and improved to 1.78x as on March 31, 2024(prov.) from 2.06x as on March 31. 2023. The Debt protection metrics marked by interest coverage ratio stood comfortable at 5.01 in FY24(prov.) as compared to 4.75 in FY23 due to increase in operating profit.

Experienced and resourceful promoters

The company was established under the guidance of Mr. Shaileshbhai, Mr.G. Vasnani and Mr. Manish N. Vasnani who collectively have an experience of over a decade in tiles industry through Italica Floor Tiles Ltd and Soriso Ceramic Pvt Ltd. The promoters are supported by a highly qualified and trained team to run day-to-day operations. Long-standing presence of the promoters in the industry has helped the company to establish healthy relationship with its customers and suppliers.

Strategic location advantage

The company's manufacturing plant is located in Morbi, Gujarat which is considered to be the ceramic hub of India, contributing over 80% of total ceramic tiles production in India. Therefore, the company has competitive advantage in easy access to quality raw material at competitive prices with lower transportation cost from Gujarat and some parts of Rajasthan.

Healthy demand outlook for ceramic tiles

India is one of the fastest-growing ceramic tile marketplaces at the global level fuelled by its growing real estate sector coupled with favourable government policies supporting the strong growth in the housing sector. Moreover, rising disposable income in India and a corresponding desire for beautification of living and working spaces are also driving the need for ceramic tiles in the country

Key Rating Weaknesses

Short track record of operations

IGPL has started its operation since July, 2017 hence it has a short operational track record. However, the company has successfully completed years of its operations.

Susceptibility to adverse fluctuations in prices of key raw materials

Major manufacturing cost component in ceramic tile industry are raw material (body clay and feldspar) and gas which determine the cost competitiveness and company's profitability in the industry. IGPL has limited control over the prices of its key inputs. Hence, the company's profitability, vulnerable to the movements in raw material and gas prices, relies on its ability to pass on any adverse movement to the customers.

Intense competition and exposure to 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 and limited initial capital investment, which results in limiting the pricing flexibility resulting in pressure on company's revenue and margins. IGPL faces direct competition from the large and organised players who have better brand visibility. Further sale of tiles is also linked to demand from real estate sector, which is cyclical in nature. Hence, IGPL 's profitability and cash flows are likely to remain vulnerable to the inherent cyclicality of the industry.

Working capital intensive nature of operation

The nature of business of IGPL requires the company to maintain a high level of raw material inventory to ensure uninterrupted production. Further, the company has to provide credit period of about 50-60 days to its customers. Hence, the operations of the company is working capital intensive. However, the gross current assets of the company improved to 110 days in FY24(Prov.) from 126 days in FY23 driven by better management of its working capital requirements.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies.

Financial Ratios & Interpretation (Non-Financial Sector).

Criteria for assigning Rating outlook.

Policy on Default Recognition

Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The liquidity of the company is expected to remain adequate marked by its expected healthy gross cash accruals vis-à-vis its debt repayment obligations in the projected tenure. The company has earned a gross cash accrual of Rs.25.20 crore in FY24(Prov.). Further, the company has projected to earn sufficient cash accruals in the range of ~Rs. 29 crore and Rs. 40 crore in comparison to its debt repayment obligation of Rs 6.00 crore to Rs 13.00 crore in the projected period of FY25 to FY27. Moreover, the average fund-based limit utilisation of IGPL remained adequate at ~38% indicating a satisfactory liquidity buffer. Furthermore, the absence of any major capex plan in the near term provides additional liquidity buffer.

About the Company

Incorporated in 2016, Gujarat based Ikaa Granito Private Limited (IGPL) changed its name to Italica Granito Private Limited (certificate of incorporation pursuant to change of name dated February 15, 2022) is promoted by Mr. Shaileshbhai G. Vasnani, Mr. Manojkumar V. Kakasaniya, Mr. Bhargav C. Kavar and Mr. Manishbhai N. Vasnani. The company is engaged in manufacturing of Ceramic Glazed Vitrified Tiles under its own brand name “Italica”. The Company had started its production from July 15,2017 with production capacity of 2 lakh Tons Per annum increased from 113400 Tons per annum at its plant located at Morbi, Gujrat which is a well-developed industrial city and is the hub for manufacturing ceramic tiles in India. The company increased its production capacity in FY22 to 21,000 boxes per day from 10,500 boxes per days July 01,2021. Beside domestic markets the company also caters to export markets of Latin American, Middle East and South East Asian countries.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	412.77	552.15
EBITDA	36.75	38.86
PAT	17.11	18.07
Total Debt	79.41	77.04

Tangible Net Worth	67.22	84.55
Adj. Tangible Net Worth	79.74	97.49
EBITDA Margin (%)	8.90	7.04
PAT Margin (%)	4.13	3.26
Overall Gearing Ratio (x)	1.00	0.79
Interest Coverage (x)	4.75	5.01

** Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA:

Crisil Rating has continued the rating of IGPL into the Issuer Non-Cooperating category on account of information risk in the rating procedure despite repeated follow ups as per the Press Release dated May 17, 2023.

Any other information:

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in (Year 2023-24)**	**Date(s) & Rating(s) assigned in (Year 2022-23)**	**Date(s) & Rating(s) assigned in in (Year 2021-22)**
					(July 20, 2023)	(Apr 29, 2022)	(February 04, 2021)
1.	Term Loan	Long Term	6.54*	IVR BBB+/ Stable	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB-/ Stable
2.	WCTL/ ECLGS 2	Long Term	0.36	IVR BBB+/ Stable	IVR BBB/ Stable	IVR BBB/ Stable	-
3.	Cash Credit	Long Term	17.00^	IVR BBB+/ Stable	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB-/ Stable
4.	Bank Guarantee	Short Term	2.65	IVR A2	IVR A3+	IVR A3+	IVR A3
5.	Loan Equivalent Risk	Short Term	3.00	IVR A2	IVR A3+	-	-

*FCTL of Rs.18.08 crore is a sublimit of Term Loan

^WCDL/FCDL of Rs.10 crore is a sublimit of Cash Credit.

^Export Credit Facilities of Rs.17.00 crore is a sublimit of Cash Credit

^Post Shipment Credit of Rs.17.00 crore is a sublimit of Cash Credit

Analytical Contacts:

Name: Sandeep Khaitan

Tel: (033)- 46022266

Email: sandeep.khaitan@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength

of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	July 2025	6.54*	IVR BBB+/Stable
WCTL/ ECLGS 2	-	-	-	August 2024	0.36	IVR BBB+/Stable
Cash Credit	-	-	-	-	17.00^	IVR BBB+/Stable
Bank Guarantee	-	-	-	-	2.65	IVR A2
Loan Equivalent Risk	-	-	-	-	3.00	IVR A2

*FCTL of Rs.18.08 crore is a sublimit of Term Loan

^WCDL/FCDL of Rs.10 crore is a sublimit of Cash Credit.

^Export Credit Facilities of Rs.17.00 crore is a sublimit of Cash Credit

^Post Shipment Credit of Rs.17.00 crore is a sublimit of Cash Credit

Annexure 2: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-Italica-Granito-july24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis:

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.