Press Release

Italica Granito Private Limited

July 20, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	32.77 (reduced from Rs.41.33 crore)	IVR BBB/ Stable Outlook (IVR Triple B with Stable outlook)	Reaffirmed	Simple
Short Term Bank Facilities	5.65 (increased from Rs.2.65 crore)	IVR A3+ (IVR A three plus)	Reaffirmed	Simple
Total	***38.42 (INR Thirty eight crore and forty two lakh only)***			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation in the ratings assigned to the bank facilities of Italica Granito Private Limited considers continuous improvement in its scale of operations and profitability in FY22 and FY23(prov.) led by commencement of operation from its capacity expansion coupled with healthy demand outlook for ceramic tiles. Further, the ratings continue to derive comfort from its experienced and resourceful promoters, proximity to raw material sources by virtue of the company's presence in the ceramic hub Morbi (Gujarat) and its moderate capital structure with satisfactory debt protection metrics. 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 high working capital intensity of its business.

Key Rating Sensitivities:

Upward Factors

- Substantial & sustained improvement in scale of operations leading to improvement in profitability
- Improvement in the capital structure with improvement in overall gearing ratio to below 1.0 x and/or improvement in debt protection metrics
- Improvement in working capital cycle strengthening the liquidity.

Downward Factors

- Any decline in scale of operations and/or moderation in profitability leading to deterioration in debt protection metrics.
- Moderation in the capital structure on account of withdrawal of unsecured loan of Rs.12.42 crore and any unplanned debt funded capex leading to moderation in the overall gearing ratio to over 1.5x and/or moderation in interest coverage below 3x
- Stretch in working capital cycle weakening liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **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.

- **Improvement in scale of operation with rise in profitability**

The Company has witnessed steady y-o-y growth of 32% in FY23(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.411.81 crore in FY23 (prov.) from Rs.196.00 crore in FY21 (Rs. 311.29 crore in FY22). The topline increased with a CAGR of 45% in the last three financial year FY21 to FY23. Fuelled by the increase in the operation, EBIDTA and PAT almost doubled to Rs.38.20 crore and Rs. 16.97 crore in FY23 (prov.) from Rs.19.52 crore and Rs.9.17 crore in FY21 respectively (Rs.30.21 crore and 16.22 crore in FY22), EBIDTA margin however moderated marginally to 9.28% in FY23 (prov.) from 9.70%in FY22 due to rise in the raw material cost. PAT margin of the company also moderated to 4.12% in FY23 (prov.) from 5.15% in FY22 with the increase in the interest cost led by the increase in the borrowings and term loan for the increase in the production capacity.

- **Moderate capital structure with satisfactory debt protection metrics**

The capital structure of the company includes subordinated unsecured loans from the promoters aggregating to Rs.12.52 crore as on March 31,2022 (improved from Rs.8.15 crore in FY21). Taking the same as quasi equity the net worth of the company stood at Rs.79.61 crore as on March 31,2023. The leverage ratios of the company continued to remain moderate marked by the long-term debt to equity ratio and the overall gearing ratio at 0.61x and 1.00x respectively as on March 31,2023 and improved from 1.01x and 1.41x respectively as on March 31, 2022 due to increase in the promoter’s contribution as quasi equity and accretion of profit to the networth. The debt protection metrics of the company improved considerably driven by rise in profitability marked by improvement in interest coverage to 5.12x in FY23 from 4.12x in FY22. Further, Total debt to EBITDA and Total debt to GCA has also improved to 2.08x and 3.24years in FY23 (prov.) from 2.91x and 3.72years respectively as on March 31, 2022. TOL/TNW improved to 1.97x from 2.41x in FY22.

- **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.

- **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 60-75 days to its customers. Hence, the operations of the company is working capital intensive. However, the gross current assets of the company improved from estimated improved to 113 days in FY23 from 121 days in FY22 driven by better management of its working capital requirements.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Financial Sector/Non- Financial Sector)
Criteria for assigning rating outlook

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.24.50 crore in FY23. Further, the company has projected to earn sufficient cash accruals in the range of ~Rs. 28 crore and Rs. 36 crore in comparison to its debt repayment obligation of Rs 10.25 crore to Rs 10.02 crore in the projected period of FY24 to FY26. Moreover, the average fund based limit utilisation of IGPL remained adequate at ~74% and the average non fund based limit utilisation remained at 60% during the past 12 months ended April 2023 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	31.03.2022	31.03.2023
	Audited	Provisional
Total Income	311.29	411.81
EBIDTA	30.21	38.20
PAT	16.22	16.97
Total Debt	88.01	79.32
Tangible Net Worth	62.64	79.61
EBDITA Margin (%)	9.70	9.28
PAT Margin (%)	5.15	4.12
Overall Gearing Ratio (x)	1.41	1.00

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Crisil has moved the rating of IGPL into the Issuer Non-Cooperating category despite repeated attempts to engage with the management, CRISIL Ratings failed to receive any information on either the financial performance or strategic intent of IGPL, which restricts CRISIL Ratings' ability to take a forward looking view on the entity's credit quality via press release dated May 17, 2023.

Any other information:

Rating History for last three years:

Sr.	Name of	Current Ratings (Year 2023-24)	Rating History for the past 3 years

No.	Instrument/ Facilities	Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 April 29, 2022)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21 (February 04, 2021)
1.	Term Loan	Long Term	12.57*	IVR BBB/Stable	IVR BBB/ Stable	-	IVR BBB-/ Stable
2.	WCTL/ ECLGS 2	Long Term	3.20	IVR BBB/Stable	IVR BBB/ Stable	-	-
3.	Cash Credit	Long Term	17.00^	IVR BBB/Stable	IVR BBB/ Stable	-	IVR BBB-/ Stable
4.	Bank Guarantee	Short Term	2.65	IVR A3+	IVR A3+	-	IVR A3
5.	Loan Equivalent Risk	Long Term/ Short Term	3.00	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

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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.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	July 2025	12.57*	IVR BBB/Stable
WCTL/ ECLGS 2	-	-	August 2024	3.20	IVR BBB/Stable
Cash Credit	-	-	-	17.00^	IVR BBB/Stable
Bank Guarantee	-	-		2.65	IVR A3+
Loan Equivalent Risk	-	-		3.00	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

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-IGPL-jul23.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.