



## Press Release

### Sega Granito LLP

November 18, 2022

#### Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long Term Bank Facilities	75.96 (reduced from Rs.78.72 crore)	IVR BBB-/ Positive (IVR triple B minus with Positive outlook)	Reaffirmed with revision in the outlook from 'Stable' to 'Positive'	Simple
Short Term Bank Facilities	10.50 (enhanced from Rs. 7.09 crore)	IVR A3	Reaffirmed	Simple
<b>Total</b>	<b>86.46</b> <b>(Eighty six crore and forty six lakh only)</b>			

#### Details of Facilities are in Annexure 1

#### Detailed Rationale

The revision in the rating outlook of Sega Granito LLP (SGL) from Stable to Positive considers the increase in the production capacity which is likely to improve the overall financial performance of the company by benefitting from the increase in the scale of operations from FY2023 onwards.

The reaffirmation of the ratings assigned to the bank facilities SGL continues to derive comfort from its experienced promoters with long and established track record, locational advantage being situated in ceramic cluster; Morbi, presence in both domestic as well as overseas markets. The ratings also consider gradual scale up of operations in FY22 and H1FY23 and moderate capital structure. However, these rating strengths continue to be partially offset by limited track record of operations, susceptibility of profitability to adverse fluctuations in prices of key raw materials, intense competition and exposure to cyclicity in real estate industry. The ratings also note its nature of constitution, and working capital intensive nature of operations.

#### Key Rating Sensitivities:



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### Upward Factors

- Substantial and sustained improvement in scale of operations and profits, leading to improvement in debt protection metrics
- Improvement in total outside liabilities to tangible net worth ratio to below 2x
- Improvement in working capital cycle strengthening liquidity

### Downward Factors

- Any decline in scale of operations and/or moderation in profitability leading to deterioration in debt protection metrics.
- Withdrawal on subordinated unsecured loans and/or moderation in the capital structure with overall gearing gone over 2x
- Stretch in working capital cycle weakening liquidity

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

- **Experienced and resourceful partners**

The firm was established under the guidance of Mr. Nileshkumar Maganlal Ghodasara with his two brothers Mr. Shailesh V. Ghodasara & Mr. Dipeshkumar M. Ghodasara along with 12 other partners who collectively have an experience of over a decade in the ceramic tiles industry. Long-standing presence of the partners in the industry has helped the firm to establish healthy relationship with its customers and suppliers.

- **Presence in ceramic cluster in Morbi, leading to strategic locational advantage**

SGL's manufacturing facility is located at Morbi in Gujarat, which is the largest tile manufacturing cluster of India. Out of the approximately 750 odd ceramic tile manufacturing units in Gujarat, around 610 are located in the Morbi district, and Gujarat alone contributes around 80-90% of the total production of the Indian ceramic tile industry. Therefore, the firm has competitive advantage in easy access to quality raw material at competitive prices with lower transportation cost from Gujarat and some parts of Rajasthan.

- **Presence in both domestic as well as overseas markets**



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SGL has presence in both domestic and in export market which results in a diversified revenue profile. The firm also export to Latin American, Middle East and South East Asian countries.

- **Gradual scale up of operations**

The firm has witnessed steady y-o-y growth of ~37% in FY22 backed by healthy demand of Indian tiles in the export market coupled with steady inflow of orders from the domestic market also post covid period since H1FY22. Further, in FY23 the firm has estimated to achieve a topline of ~Rs.244 crore backed by healthy demand of tiles coupled with commencement of operation from increased capacity since October 2022.

With growth in its operation absolute EBIDTA improved to Rs. 20.77 crore from Rs. 17.68 crore in FY21. The EBIDTA margin however declined to 11.98% in FY22 from 10.24% in FY21 due to increase in the overhead expenses. PAT margin declined to 2.71% in FY22 from 4.41% in FY21 due to increase in the interest and depreciation expenses. Improvement in profitability helped the firm to enhance its cash accruals from Rs.15.06 crore in FY22 to Rs.12.87 crore in FY21.

Going forward, Infomerics expects that the scale of operations and profits to increase with an increase in the overall production capacity of the firm.

### **Moderate Capital structure**

The capital structure of the firm includes subordinated unsecured loans from the promoters aggregating to Rs.5.62 crore as on March 31,2022 (improved from Rs.4.32 crore as on March 31, 2021). Taking the same as quasi equity the adjusted net worth of the firm stood at Rs.53.05 crore as on March 31,2022. The leverage ratios of the firm continued to remain moderate marked by the long-term debt equity ratio and the overall gearing ratio at 1.30x and 1.53x respectively as on March 31,2022. However, the leverage ratios moderated marginally as on March 31,2022 from 1.04x and 0.85x as on March 31, 2021 due to rise in long term debt availed for completion of capacity expansion capex and bank borrowings to support enhanced scale of operations. The total indebtedness of the firm moderated to 2.24x as on March 31, 2022 from 1.59x as on March 31, 2021 due to increase in total borrowings for capex and working capital requirement. However, the same is expected to improve in the projected years with the repayment of the term loan.



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The debt protection metrics of the firm remained at almost same level with interest coverage to 3.57x in FY22 from 3.58x in FY21.

### Key Rating Weaknesses

- **Susceptibility of profitability to adverse fluctuations in prices of key raw materials**

Raw material and fuel are the two major cost components accounting for ~80% of the total output and determine the cost competitiveness of SGL's operations. The major raw materials are feldspar, clay, powder and glaze material, which are largely sourced from Rajasthan and 4 Gujarat through local vendors. The firm has an agreement with Gujarat Gas Limited for continuous supply for gas. The firm has little control over prices of key inputs such as natural gas, a major fuel used in the manufacturing processes and other raw materials, which can lead to volatility in profit margins. Hence, the firm'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 cyclicity 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 firm's revenue and margins. SGL 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, SGL 's profitability and cash flows are likely to remain vulnerable to the inherent cyclicity of the industry.

- **High working capital intensity**

The nature of business of SGL requires the firm to maintain a high level of raw material inventory to ensure uninterrupted production. Further, the firm has an elongated creditors period as the firm is in a phase of establishing itself in the market and to gain market share and customers, the firm provided an extended credit period.

- **Partnership nature of constitution**



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Given SGL's constitution as a partnership firm, it remains exposed to discrete risks, including the possibility of withdrawal of capital by the partners and the risk of dissolution of the firm upon the death, retirement or insolvency of partners.

**Analytical Approach:** Standalone

**Applicable Criteria**

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

[Criteria for assigning rating outlook](#)

### **Liquidity – Adequate**

The liquidity of the firm 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 firm has earned a gross cash accrual of Rs.15.06 crore in FY22. Further, the firm has projected to earn sufficient cash accruals of Rs 25.60 crore, Rs.28.02 crore and Rs 30.24 crore respectively in comparison to its debt repayment obligation of Rs 16.22 crore each in FY23 and FY24 and Rs 15.23 crore respectively in FY25. Moreover, the average cash credit utilisation of IGPL remained adequate at ~77% during the past 12 months ended September 30, 2022 indicating a satisfactory liquidity buffer.

### **About the Company**

Established in 2016 as limited liability partnership firm, Gujarat based Segra Granito LLP (SGL) is promoted by Mr. Nileshkumar Maganlal Ghodasara with his two brothers Mr. Shailesh V. Ghodasara & Mr. Dipeshkumar M. Ghodasara along with 12 other partners. The firm is engaged in the business of manufacturing of Vitrified Tiles, especially high-quality export grade Double Charged Vitrified Tiles with installed capacity of over 1,90,000 Metric Ton Per Annum enhanced in October 2022. This tile has wide usage for commercial as well as residential purpose. The plant is located at Morbi, Gujrat which is a well-developed industrial city and is the hub for manufacturing ceramic tiles in India. The firm also export to Saudi Arabia, Iran, Iraq, Malaysia, Thailand.

**Financials (Standalone):**

**(Rs. crore)**





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For the year ended* / As on	31.03.2021	31.03.2022
	<b>Audited</b>	<b>Audited</b>
Total Income	147.58	202.83
EBIDTA	17.68	20.77
PAT	6.51	5.49
Total Debt	38.27	81.00
Tangible Net Worth	40.82	47.43
Adjusted Tangible Net Worth	45.14	53.05
EBDITA Margin (%)	11.98	10.24
PAT Margin (%)	4.41	2.71
Overall Gearing Ratio (x)	0.85	1.53

\*Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Brickwork Rating has moved the rating of Segra Granito LLP into the Issuer Non-Cooperating category in view of the non-availability of information and lack of cooperation from the company as per the Press Release dated March 14, 2022.

**Any other information:** Nil

**Rating History for last three years:**

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years				
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (October 18, 2021 (August 30, 2021)		Date(s) & Rating(s) assigned in 2020-21 (March 22, 2021 (March 16, 2021)		Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long Term	54.39	IVR BBB-/Positive	IVR BBB-/Stable	IVR BBB-/Stable	IVR BBB-/Stable	-	-
2.	GECL	Long Term	6.57	IVR BBB-/Positive	IVR BBB-/Stable	IVR BBB-/Stable	-	-	-
3.	FBWC – Cash Credit	Long Term	15.00	IVR BBB-/Positive	IVR BBB-/Stable	IVR BBB-/Stable	IVR BBB-/Stable	IVR BBB-/Stable	-
4.	Bank Guarantee	Long Term	10.50	IVR A3	IVR A3	IVR A3	IVR A3	-	-

**Name and Contact Details of the Rating Analyst:**



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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](http://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, suspend 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: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan 1	-	-	March 2025	18.57	IVR BBB-/ Positive



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Term Loan 2	-	-	December 2028	35.82	IVR BBB-/Positive
GECL	-	-	March 2025	6.57	IVR BBB-/Positive
FBWC – Cash Credit	-	-	-	15.00	IVR BBB-/Positive
Bank Guarantee	-	-	-	10.50	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-Sega-Granito-nov22.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](http://www.infomerics.com).