Italica Granito Private Limited

(Erstwhile Ikaa Granito Private Limited)

April 29, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	41.33 (Reduced from Rs. 52.06 crore)	IVR BBB;Stable (IVR Triple B with Stable outlook)	Revised from IVR BBB- / Stable (IVR Triple B minus with Stable outlook)	Simple
Short Term Bank Facilities	2.65 (Reduced from Rs. 3.50 crore)	IVR A3+ (IVR A three plus)	Revised from IVR A3 (IVR A three)	Simple
Long Term /Short Term Bank Facilities	11.58	IVR BBB; Stable /IVR A3+ (IVR Triple B with Stable outlook and IVR A three plus)	Assigned	Simple
Total	**55.56 (INR Fifty-five crore and fifty-six lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Italica Granito Private Limited Limited (Erstwhile Ikaa Granito Private Limited) considers continuous improvement in its scale of operations and profitability in FY21 and in FY22, commencement of operation from its capacity expansion capex 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 1.2x 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.8.15 crore and any unplanned debt funded capex leading to moderation in the overall gearing ratio to over 2x and/or moderation in interest coverage to below 2x
- 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 ~52.5% in FY21 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 H1FY21. Further, in FY22 the company has estimated to achieve a topline of Rs.308 crore driven by healthy demand of ceramic tiles coupled with commencement of operation from increased capacity since July 01,2021. With growth in its operation leading to higher absorption of fixed overheads coupled with gradual rise in average sales realisation resulted in increase in EBITDA margin of the company from 8.09% in FY20 to 9.96% in FY21. The EBITDA margin estimated to improve further in FY22. Fuelled by rise in absolute EBITDA, PAT level and PAT margin of the company has also improved in FY21 and estimated to improve further in FY22. Improvement in profitability has also helped the company to enhance its cash accruals from Rs.6.79 crore in FY20 to Rs.13.24 crore in FY21.

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

The capital structure of the company includes subordinated unsecured loans from the promoters aggregating to Rs.8.15 crore as on March 31,2021 (improved from Rs.7.22 crore in FY20). Considering the same as quasi equity the adjusted net worth of the company stood at Rs.28.30 crore as on March 31,2021. The leverage ratios of the company continued to remain moderate marked by the long-term debt equity ratio and the overall gearing ratio at 0.98x and 1.33x respectively as on March 31,2021. Further, the leverage ratios are estimated to moderate marginally as on March 31,2022 due to rise in long term debt availed for completion of capacity expansion capex and bank borrowings to support enhanced scale of operations. The debt protection metrics of the company improved considerably driven by rise in profitability marked by improvement in interest coverage to 4.31x in FY21 from 2.21x in FY20. Further, Total debt to EBITDA and Total debt to GCA has also improved from 3.64x and 5.57x respectively as on March 31,2020 to 2.48x and 3.65x respectively as on March 31,2021.

- **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 from 155 days in FY20 to 122 days in FY21 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)

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.13.24 crore in FY21. Further, the company has projected to earn sufficient cash accruals of Rs 23.14 crore and Rs 24.81 crore respectively in comparison to its debt repayment obligation of Rs 10.35 crore and Rs 11.01 crore respectively in FY23 and FY24. Moreover, the average cash credit utilisation of IGPL remained adequate at ~80% during the past 12 months ended March 2022 indicating a satisfactory 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 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	31.03.2020	31.03.2021
	Audited	Audited
Total Income	128.21	196.00
EBIDTA	10.38	19.52
PAT	3.46	9.17
Total Debt	37.80	48.36
Tangible Net Worth	19.12	28.30
EBDITA Margin (%)	8.09	9.96
PAT Margin (%)	2.68	4.65
Overall Gearing Ratio (x)	1.43	1.33

**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 as the entity did not provide the requisite information needed to conduct the rating exercise and is therefore classified as 'non cooperative' via press release dated March 28, 2022.

Any other information:

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	Date(s) & Rating(s) assigned in 2020-21 (February 04, 2021)	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	17.00	IVR BBB/Stable	-	IVR BBB - /Stable	-
2.	Term Loans	Long Term	24.33	IVR BBB/Stable	-	IVR BBB - /Stable	-
3.	Bank Guarantee	Short Term	2.65	IVR A3+	-	IVR A3	-
4.	Unallocated	Long Term/ Short Term	11.58	IVR BBB/Stable / IVR A3+	-	IVR BBB- /Stable / IVR A3	-

Name and Contact Details of the Rating Analyst:

Name: Preety Jalan Tel: (033)- 46022266 Email: preety.jalan@infomerics.com	Name: Avik Podder Tel: (033)- 46022266 Email: apodder@infomerics.com

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.

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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
Cash Credit	-	-	-	17.00	IVR BBB/Stable
Term Loan	-	-	September 2025	24.33	IVR BBB/Stable
Bank Guarantee	-	-		2.65	IVR A3+
Unallocated	-	-		11.58	IVR BBB/Stable/ 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-Italica-Granito-Apr22.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.