



## Press Release

### Sega Granito LLP

March 22, 2021

#### Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facility- Fund Based Limit	15.00	IVR BBB- / Stable (Triple B Minus with Stable Outlook)	Re-affirmed
Long Term Bank Facilities- Term Loan	38.72	IVR BBB- / Stable (Triple B Minus with Stable Outlook)	Assigned
Short Term Bank Facilities- Non- Fund Based Limit	4.09	IVR A3 (IVR A Three)	Assigned
<b>Total</b>	<b>57.81</b> <b>(Rupees fifty-seven</b> <b>crore and eighty one</b> <b>lakhs only)</b>		

#### Details of Facilities are in Annexure 1

#### Detailed Rationale

The reaffirmation of rating assigned to the above bank facilities of Sega Granito LLP (SGL) continues to derives comfort from its experienced and resourceful partners, presence in ceramic cluster in Morbi leading to strategic locational advantage, presence in both domestic as well as overseas markets, gradual scale up of operations with gradual improvement in the capital structure and debt protection metrics. However, these rating strengths are partially offset by its limited track record of operations, susceptibility to adverse fluctuations in prices of key raw materials, intense competition and exposure to cyclicalities in real estate industry and high working capital intensity. The ratings also note its nature of constitution.

#### Key Rating Sensitivities:

##### Upward Factors

- Substantial & sustained improvement in scale of operations 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



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- 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 13 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**

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. SGL generated around 71% of its revenue from overseas market in 9M FY21 and the remaining from domestic markets.

##### **Gradual scale up of operations**

SGL commenced commercial operations from November, 2017 and had reported a loss of Rs. 5.13 crore in its 5-months of operation in FY18. However, the firm recorded a strong growth in its revenue to Rs 83.70 crore with operating profitability at 17.35% in full year FY19 and further its revenue increased by around 24% in FY20 to Rs.103.72 crore on account of steady inflow of orders and increase in operations. The growth in total operating income is largely



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driven by higher demand of tiles in domestic as well as overseas market space. The operating margin of the firm remained satisfactory in the range of ~10.34 – 17.35% over the past three fiscals ending in FY20 whereas the PAT margin improved gradually and remained satisfactory at 1.87% in FY20 (0.03% in FY19). In 8MFY21, the firm reported revenue of Rs.85.48 crore with EBITDA margin of 13.07% and interest coverage of 3.63x as against revenue of Rs.64.65 crore as against EBITDA margin of 11.77% and interest coverage of 1.96x in 8MFY20. Further, the firm has an order book of Rs.66 crore which needs to deliver within March, 2021 indicating an assured revenue in the near term. Going forward, Infomerics expects that the firm will continue to maintain a decent growth in its operations.

### **Gradual improvement in the capital structure and debt protection metrics**

SGL has witnessed gradual improvement in its capital structure over the last three account closing dates driven by scheduled repayment of term debt obligations and accretion of profit to net worth. Further, the net worth of the firm includes subordinated unsecured loans from the promoters aggregating to Rs.5.44 crore. The overall gearing ratio witnessed continuous improvement from 2.02x as on March 31, 2018 to 1.70x as on March 31, 2020. Further, total indebtedness of the firm also remained moderate marked by TOL/ATNW at 2.79x as on March 31, 2020. The debt protection metrics of the firm also improved sequentially and remained moderate marked by interest coverage of 2.51x in FY20 (FY19: 2.30x, FY18: 0.63x) and Total debt to GCA at 5.18 years in FY20 (A) [6.58 years in FY19]. However, the capital structure and debt protection metrics of the firm is expected to improve in the near term with repayment of term loan and retention of profit.

### **Key Rating Weaknesses**

#### **Limited track record of operations**

SGL has started its operation since November, 2017 hence it has a short operational track record of about two and half years.

#### **Susceptibility 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 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



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lead to volatility in 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.

**Analytical Approach:** Standalone

### **Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **Liquidity: Adequate**

The liquidity of the firm is expected to remain adequate in the near to medium term in view of sufficient cash accruals in comparison to its debt repayment obligation in FY21-23. The firm has earned a cash accrual of Rs.9.32 crore in FY20 and is expected to earn cash accruals in the range of ~Rs.12-16 crore as against its debt repayment obligations in the range of 5-10 crore during FY21-23. Moreover, the average cash credit utilisation of SGL remained moderately utilised at ~79% during the past 12 months ended December, 2020 indicating a satisfactory liquidity buffer.

### **About the Entity**

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.



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Shailesh V. Ghodasara & Mr. Dipeshkumar M. Ghodasara along with 13 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 87000 Metric Ton Per Annum. The commercial production commenced from November 2017. 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 Latin American, Middle East and South East Asian countries. Export contributes ~91% of its total revenue in FY20.

### Financials (Standalone)

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	83.70	103.72
EBITDA	14.53	15.05
PAT	0.02	1.94
Total Debt*	55.59	48.27
Tangible Net worth*	28.38	28.43
EBITDA Margin (%)	17.35	14.51
PAT Margin (%)	0.03	1.87
Overall Gearing Ratio (x)*	1.96	1.70

\*Excluding subordinated USL from total debt and considering it as quasi equity

\*Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Nil

**Rating History for last three years:**

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Fund Based Limit	Long Term	15.00	IVR BBB-/Stable	IVR BBB-/ Stable (March 16, 2021)	-	-
2.	Term Loan	Long Term	38.72	IVR BBB-/Stable	-	-	-
3.	Non-Fund Based Limit	Short term	4.09	IVR A3	-	-	-





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**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).

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**About Infomerics:**

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**Annexure 1: Details of Facilities**



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Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long term Fund based Limits	-	-	-	15.00	IVR BBB-/Stable
Long Term loan	-	-	March 2025	38.72	IVR BBB-/Stable
Short term Non-fund based Limits	-	-	-	4.09	IVR A3

Annexure II: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-sgl.pdf>