



## Rating Rationale

8 Jan 2020

Jaxx Vitrified Pvt. Ltd.

**Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 33.31 Crores of Jaxx Vitrified Pvt. Ltd. (here in after referred as “JVPL” or the “Company”)**

### Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based	23.21	Long Term	BWR BB+ Stable
Non Fund Based	10.10	Short Term	BWR A4+
<b>Total</b>	<b>33.31</b>	<b>INR Thirty three crores &amp; thirty one lakhs only</b>	

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

### RATING ACTION/OUTLOOK:

BWR has taken a Standalone view of Jaxx Vitrified Private Limited and essentially relied upon the audited financial results up to FY19, management certified provisional financials for 8MFY20, projected financials upto FY22 and information/clarification provided by the Company's management.

The rating reaffirmation draws strength from financial support from parent company and improvement in operation. The rating also factors the long standing relationship with Kajaria Ceramics Limited (KCL) and also benefits from it's reputed brand and wide marketing network.

The rating is, however, constrained by, vulnerability of profit margins due to adverse movements in raw material prices and exposure to the inherent cyclicity in the ceramic industry. The Company is exposed to intense competition from a large number of players operating in Morbi-Gujarat.

BWR believes that business risk profile will be maintained over the medium term. the 'Stable' outlook indicates a low likelihood of rating change over the medium term.

### Description of Key Rating Drivers

#### Credit Strengths:

- **Financial support from the KCL:** The rating draws comfort from its parent Company, Kajaria Ceramics Limited, which is one of the largest players in the Indian ceramic tile market. The Company also benefits from KCL's longstanding presence and established brand name. KCL holds 82.37% stake in the JVPL and supports the Company by way of infusing unsecured loans as and when required.



- **Improved operation and operating profit margins:** The Company's total operating income has improved upto Rs. 315.86 Crs in FY19 against Rs. 225.32 Crs in FY18, on account of new adopted technology and enhanced capacity utilization. Low operating cost has resulted into significant improvement in operating profit margins from 1.63% to 6.44%. However, the Company has reported a loss of Rs. 0.10 Crs in FY19 as compare to Rs. 18.49 Crs in FY18 due to change in the procurement policy of Kajaria Ceramics Limited. As per management certified prov. financials of 8MFY20, the Company has achieved the revenue of Rs. 191 Crs.
- **Favourable location provides easy access to raw materials** - The manufacturing facility of the Company is situated at ceramic tiles hub; Morbi- Gujarat, which provides easy access to low transportation and raw material costs.

#### **Credit risks:**

- **Weak financial risk profile:** JVPL's financial risk profile is weak marked by deteriorating leverage and coverage indicators. Gearing stood high at 12.93x in FY19 mainly on account of reduction in networth due to loss incurred by the company in the last two consecutive years. Analysed Tangible net worth is Rs. 66.20 Crs and analysed gearing is 1.30x in FY19. The Company has borrowed interest bearing unsecured loans of Rs. 110 Crs from KCL to support working capital requirements, which further increase the financial cost.
- **Vulnerability of profit to fluctuations in raw material and fuel costs** – Raw material and fuel are the two major manufacturing cost components that determine the cost competitiveness of a player in the ceramic industry. Since the company has limited control over key inputs such as raw material and fuel, adverse movements in raw material and gas prices can expose its profitability to fluctuations.
- **Intense Competition** : The ceramic industry is marked by intense competition from numerous ceramic units in the unorganised sector, as well as large units in the organised sector.
- **Customer concentration risk** : The Company is exposed to high client concentration risk with a single client Kajaria Ceramics Limited; contributing a significant portion to the entity's turnover, thereby exposing the company to customer concentration risk. Any changes in procurement pattern from the customer may impact entity's business.

#### **Rating sensitivities:**

**Positive:** The Company's ability to achieve significant growth in revenue and profitability, sustained improvement in capital structure, gearing and coverage indicators will be positive for ratings.

**Negative:** Further decrease in revenues & profit margins, deterioration in gearing and debt protection metrics will be negative for the ratings.

#### **Liquidity : Adequate**

The Company's liquidity remained adequate as reflected from long term debt repayment obligation in the near term and moderate cash accruals. Net cash accruals are Rs. 8.45 Crs in FY19. Working capital cycle remains comfortable on the back of short receivable days from 9 to 12 days in FY18 & FY19, respectively. The Company's average utilization of cash credit facility is around 68% for the last six months ending on December-2019.



### Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

### About the Company

Jaxx Vitrified Pvt Ltd was incorporated in November-2010 for manufacturing of vitrified floor tiles at Morbi, Gujarat. The Company is promoted by Mr. Atul Padaliya and two other directors. It has three manufacturing units with a total installed capacity 261000 Metric ton per annum. Kajaria Ceramics Limited (KCL) has acquired a 51% stake in January 2012, 61% in 2015 and 82.37% in 2018.

### Rating History for the last three years

S.No	Facility	Current Rating (2020)			Rating History		
		Type	Amount (₹ Crs)	Rating	2019	2018	2017
1	Fund Based	Long Term	23.21	BWR BB+ (Stable)	Not Rated	Not Rated	Not Rated
2	Non Fund Based	Short Term	10.10	BWR A4 +	Not Rated	Not Rated	Not Rated
	<b>Total</b>		<b>33.31</b>	<b>₹ Thirty three crores &amp; thirty one lakhs only</b>			

Status of non-cooperation with previous CRA (if applicable) : Not Applicable

### Key Financial Indicators

Key Parameters	Units	2019	2018
Result Type		Audited	Audited
Operating Revenue	₹ in Crs	315.86	225.32
EBITDA	₹ in Crs	20.33	3.67
Net Loss	₹ in Crs	0.10	18.49
Tangible Net worth	₹ in Crs	10.95	11.05
Total Debt/Tangible Net worth	Times	12.93	12.72
Current Ratio	Times	0.80	0.70

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

Analytical Contacts	Investor and Media Relations
<p><b>Kunjali Dabhi</b> Ratings Analyst B :+91 79 66174046 / 47 kunjali.r@brickworkratings.com</p> <p><b>Dileep Singh -Director - Ratings</b> B :+91 79 66174046 / 47 dileep.s@brickworkratings.com</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com</p>

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)}	Short Term (₹ Cr)	Total (₹ Cr)
1	Bank of Baroda	Fund Based Term Loans Cash Credit	5.21* 18.00	-	23.21
2	Bank of Baroda	Non Fund Based FLC- (Sublimit of CC) Bank Guarantee- For PGVCL & Gujarat Gas	-	(3.00) 10.10	(3.00) 10.10
<b>TOTAL</b>					<b>31.31</b>

**Total Thirty three crores & thirty one lakhs only.**

*\*Term loans outstanding as on 31st December, 2019.*



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