

## RATING RATIONALE

11 Oct 2019

### Proton Granito Pvt Ltd

**Brickwork Ratings assigns ratings for the Bank Loan Facilities of ₹ 54.91 Crores of Proton Granito Pvt Ltd (PGPL or 'the Company')**

#### Particulars

Facility/ Instrument**	Amount (₹ Cr)	Tenure	Rating*
Fund based	30.41	Long Term	BWR BB/ Stable
Non Fund Based	24.50	Short Term	BWR A4
<b>Total</b>	<b>54.91</b>	<b>INR Fifty Four Crores and Ninety One Lakhs Only</b>	

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

\*\* Details of Bank facilities/NCD/Bonds/Commercial Paper is provided in Annexure-I&II

#### Rating: Assigned

#### RATING ACTION / OUTLOOK

The ratings for the bank loan facilities factor the management's experience in the ceramic industry coupled with Orient Bell Limited (Crisil A-/A2+, Stable; August 2018) being a prominent shareholder of PGPL. The ratings also reflect the average financial risk profile of the Company and locational advantage of being in the ceramic tile hub with easy access to raw material, power and fuel as PGPL's manufacturing facility is located at Morbi district. The ratings, however, remain constrained by customer concentration risk, susceptibility to fluctuations in raw material prices and presence in highly competitive ceramic tile industry.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that PGPL's business risk profile will be maintained over the medium term. The outlook may be revised to Positive if the Company records significantly better-than-expected revenue and profitability and improved working capital management, resulting in better debt coverage metrics and liquidity profile. The outlook may be revised to Negative if the Company reports



significantly lower than expected performance, resulting in lower than estimated coverage indicators and a weaker liquidity position.

## KEY RATING DRIVERS

### Credit Strengths:

- **Experience of the management:** Promoters of PGPL have experience in the ceramic industry of around 10 years. Further, Orient Bell Limited (Crisil A-/A2+, Stable; August 2018) is a prominent shareholder and board of director of the Company. Hence, its extensive experience will aid in the growth of the PGPL.
- **Locational advantage of being in the ceramic tile hub with easy access to raw material, power and fuel as PGPL's manufacturing facility is located at Morbi district:** Morbi is one of the largest ceramic clusters in India. Over 70% of total ceramic tiles production in India comes from the Morbi cluster that houses more than 600 units engaged in manufacturing of wall tiles, vitrified tiles, floor tiles, sanitary wares, roofing tiles and such other products.
- **Moderate financial risk profile:** As per scale of operations and level of debt, the Company has moderate gearing at 1.75 times in FY19. Both the debt protection metrics remain adequate in FY19. However, current ratio is below the benchmark at 0.92 times in FY19.

### Credit Risks:

- **Customer concentration risk:** PGPL sells 68% of its total sales to Orient Bell Limited (CRISIL A-/A2+; Stable, August 2018) leading to customer concentration risk. Any adverse relation with Orient Bell Limited will have an effect on sales of Proton Granito Pvt Ltd.
- **Susceptibility to fluctuations in raw material prices:** The profitability of PGPL remains exposed to volatile LNG prices, mainly on account of its linkages with the international demand-supply of natural gas. Hence, PGPL's ability to control its cost structure would be crucial going forward, especially in light of competitive environment.
- **Presence in highly competitive ceramic tile industry:** The industry has strong linkage to demand from the cyclical real estate sector. The ceramic tile industry in India is highly competitive. Low entry barriers and easy availability of raw material have attracted a large influx of regional and unorganized players. Further, PGPL shall be an entrant compared to other larger players operating in the organized market, having entered the scene only in 2015.

## ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

While assigning the ratings, BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale). The Company does not have any subsidiaries.

## RATING SENSITIVITIES

### Positive:

- Substantial improvement in the revenue and cash accruals along with maintaining the credit metrics on a sustained basis will be positive for the ratings.
- Increase in profitability- Operating margin above 12% and net margin above 3%
- Specific credit metrics that could lead to an upgrade of PGPL's rating include (1) current ratio greater than 1.33 times on a sustained basis, (2) Total debt/equity less than 1.00 times on a sustained basis

### Negative :

- Termination of contract with Orient Bell Limited (CRISIL A-/A2+; Stable, August 2018) leading to decline in total operating income.
- DSCR less than 1.40 times along with ISCR less than 2.50 times

## LIQUIDITY POSITION

Liquidity of Proton Granito Pvt Ltd is adequate marked by average working capital utilization of 80%. Further, net cash accruals/total debt is moderate at 0.18 times coupled with satisfactory debt protection metrics reflected by ISCR at 2.70 times and DSCR at 1.42 times in FY19. However, current ratio is below the benchmark at 0.92 times in FY19.

## COMPANY PROFILE

Proton Granito Pvt Ltd commenced its commercial operations in 2015 in Morbi, Gujarat. PGPL is promoted by the Gujarat-based Savsani family and is engaged in manufacturing of Vitrified Tiles. Further, Orient Bell Limited (CRISIL A-/A2+, Stable; Aug 2019) is a shareholder in PGPL and is one of the largest buyers for the same.

## KEY FINANCIAL INDICATORS (in INR Cr)

Key Parameters	Units	FY19	FY18
Result Type		Audited	Audited
Total Operating Income	Rs in Crs	85.74	85.54
EBITDA	Rs in Crs	9.71	9.65
PAT	Rs in Crs	0.31	0.82
Tangible Net worth	Rs in Crs	20.50	18.92
Total Debt/TNW	Times	1.75	2.37
Current Ratio	Times	0.92	0.76

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA**

**NON-COOPERATION WITH PREVIOUS RATING AGENCY, IF ANY:** Proton Granito Pvt Ltd's rating of CRISIL BB-/A4, Stable has been suspended vide press release date 6th December 2016. The reason furnished by the CRA is non receipt of adequate information for the monitoring of the ratings.

**RATING HISTORY**

Instrument / Facilities	Current Rating			Rating History		
	Tenure	Amount (₹ Cr)	Rating	2018	2017	2016
Fund Based	Long Term	30.41	<b>BWR BB/ Stable</b>	NA	NA	NA
Non Fund Based	Short Term	24.50	<b>BWR A4</b>			
Total		54.91	INR Fifty Four Crores and Ninety One Lakhs Only			

**COMPLEXITY LEVELS OF THE INSTRUMENTS**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

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**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.	Cosmos Bank	Cash Credit	9.00	0.00	9.00
2.		Term Loan	21.41	0.00	21.41
3.		Bank Guarantee	0.00	4.50	4.50
4.		Letter of Credit	0.00	20.00	20.00
<b>TOTAL</b>					54.91

**Total Rupees Fifty Four Crores and Ninety One Lakhs only.**

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