Stylam Industries Limited

April 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	39.36	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Long Term Bank Facilities	92.50	CARE A-; Positive (Single A Minus; Outlook: Positive)	Revised from CARE A2 (A Two); Positive outlook assigned
Short Term Bank Facilities	5.10	CARE A2 (A Two)	Reaffirmed
Total Facilities	136.96 (Rs. One Hundred Thirty-Six Crore and Ninety-Six Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Stylam Industries Limited (SIL) continue to derive strength from the experienced promoters and management team, long track record of operations and established presence in the export segment. The ratings further derive strength from the comfortable and improving PBILDT margins and overall solvency position.

The ratings are, however, constrained by the elongated operating cycle, fragmented nature of the industry and susceptibility of SIL's profitability margins to fluctuations in the raw material prices and foreign exchange rates.

Rating Sensitivities

Positive Factors

- Sustained improvement in scale of operations to ~Rs. 600 cr. in the medium term
- Sustained improvement in PBILDT margins to above 22-23% in the projected years
- Improvement in overall gearing to below 0.3x in medium term

Negative Factors

- PBILDT margins falling significantly to below 10% on a sustained basis
- Any major debt funded capex resulting in deterioration of capital structure to above 1x
- Increase in gross current asset days to above ~200 days

Outlook: Positive

The outlook has been revised to 'Positive' on account of expected scale up of operations going forward along with improvement expected in the overall solvency position on the back of scheduled term debt repayments, and healthy cash flow generation leading to lower dependence on the working capital borrowings.

Detailed description of the key rating drivers

Key Rating Strengths

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Experienced promoters with long track record of operations: The company has been in operations since 1991. The operations of the company are currently being managed by Mr Jagdish Gupta (Managing Director) who has been associated with the company since its inception. Furthermore, the board has four independent directors supported by a team of professionals who handle the day-to-day operations of the company.

Comfortable and improving PBILDT margins: In FY20, the total operating income of the company remained almost at the same level as the previous year. The PBILDT margins of the company also remained comfortable and improved slightly to 17.30% compared to 17.10% in FY19. However, the PAT margins declined on a y-o-y basis to 4.04% as compared to 7.59% in FY19 on account of recognition of an exceptional loss of Rs. 15.21 cr. on sale of investment property in Q4FY20.
In 9MFY21 (UA), while the total income of the company declined by ~13% to Rs.309.81 cr. on account of lower quantity sold (especially in H1FY21) on account of Covid-19 pandemic which led to lockdown and lower industry demand, the profitability margins improved significantly, marked by PBILDT and PAT margins of 20.97% and 10.28%, respectively (PY: 15.68% and 7.12%, respectively). This was mainly on the back of higher proportion of income being derived from better margin yielding products, leading to improved sales realizations during the period.

Improvement in the overall solvency position: The capital structure of the company continued to remain at a comfortable level and improved further as on March 31, 2020, marked by long-term debt-to-equity and overall gearing ratios of 0.30x and 0.60x, respectively, as on March 31, 2020 (PY: 0.43x and 0.81x, respectively). The debt coverage indicators of the company also remained comfortable and improved on a year-on-year basis as marked by total debt to GCA ratio of 2.22x, as on March 31, 2020 (PY: 2.74x) and interest coverage ratio of 7.33x in FY20 (PY: 7.10x). The total debt to GCA ratio improved mainly on account of lower total debt outstanding at the end of the year. The interest coverage ratio of the company remained comfortable at 13.74x in 9MFY21 which improved from 8.90x in 9MFY20 due to lower interest expenses incurred by the company coupled with higher profitability.

Key Rating Weaknesses
Elongated operating cycle: The operating cycle of the company stood elongated at ~100 days, as on March 31, 2020. The same stretched further from ~83 days, as on March 31, 2019 mainly on account of elongation in the average collection period. The company manufactures various types of laminates with over 1200 designs, textures, colours & finishes and accordingly it has to maintain sufficient inventory of raw materials for smooth production process and also finished goods to meet the immediate demand of the customers, resulting in average inventory period of around 64 days, as on March 31, 2020 (PY: ~60 days). Furthermore, the company has to offer a reasonable credit period to its customers owing to its presence in highly competitive and fragmented nature of industry which resulted in average collection period of around 65 days, as on March 31, 2020 (PY: 52 days). The raw materials are procured from the local market through an established supplier base (and imports as well) who extend a credit period of around 1.5 months.

Vulnerability to foreign exchange fluctuations: The margins of the company are exposed to foreign exchange fluctuation, as during FY20, the company earned approximately 67% of its total operating income from exports. The company also imported around 47% of its raw material requirements, thus, providing natural hedge to a certain extent. Further, the company has availed some portion of its working capital borrowings in foreign currency and also enters into forward contracts to hedge its forex exposure. However, the complete exposure of the company is not hedged making the margins susceptible to any adverse fluctuation in the foreign exchange prices for the unhedged portion.

Fragmented nature of the industry: The domestic laminates industry is highly fragmented with majority of the sector comprising of unorganised players. Competition from both organised as well as unorganised players leads to pricing pressure for the players in the industry.

Liquidity: Adequate - SIL's liquidity position has remained adequate as reflected by current ratio of 1.38x, as on March 31, 2020 (PY: 1.30x). The quick ratio of the company stood at 0.89x, as on March 31, 2020 (PY: 0.82x). The company had free cash & bank balance of Rs.6 crore as on March 31, 2020 (PY: Rs.1.55 crore). The average working capital utilization of the company stood comfortable at ~50% during the last 12 months ending February-2021. The company undertook a capex amounting to ~Rs.58 cr. in FY19-FY21 period for addition of a new production line, value addition in the product-mix (hot coating line for improving finishing of the finished goods), short cycle press & polyester solid surface and for regular/routine capex. The company has a repayment obligation of Rs.24.28 cr. in FY22 to be funded through internal accruals of the company. The company had not availed the moratorium offered by RBI. The company had been disbursed Rs. 3.50 cr. of Covid-19 Emergency Credit Line by way of SLC.

Analytical approach: Standalone.

Applicable Criteria
Criteria on assigning Outlook and credit watch to Credit Ratings
Financial ratios – Non-Financial Sector
CARE's policy on default recognition
Liquidity analysis of non-financial sector entities
Criteria for Short Term Instruments
Rating Methodology - Manufacturing Companies

About the Company

Stylam Industries Ltd (Stylam) was set up by late Mr NR Aggarwal in 1991 along with his sons, Mr Jagdish Gupta and Mr Satish Gupta, by the name of Golden Laminate Private Limited. It was converted into a Public Limited Company in the year 1992 and was listed on Bombay Stock Exchange in 1995. The company changed its name from Golden Laminates Limited to Stylam Industries Limited in January 2010.

The company is engaged in the manufacturing of decorative laminates under the brand name "STYLAM" and exports its products primarily to European and South East Asian countries. The products of the company find application in furniture and real estate industry. Stylam has its manufacturing units in Panchkula and Haryana, having an installed capacity of 14.3 million sheets per annum, as on December 31, 2020. The overall management of the company is being looked after by Mr Jagdish Gupta (Managing Director).
SIL has a group concern- Golden ChemTech Limited which was engaged in the manufacturing of adhesives till September-2017. However, the company has discontinued manufacturing of adhesives post Sept-2017 and has installed a new production line at Panchkula (Haryana) to manufacture solid acrylic surface with an installed capacity of 3.20 lakh sheets per annum. The businesses of SIL and GCL have been amalgamated in March, 2020 in an all equity transaction in the ratio of 100 shares of SIL for 371 shares of GCL.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	462.18	462.41
PBILDT	79.04	79.98
PAT	35.08	18.68

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Overall gearing (times)	0.81	0.60
Interest coverage (times)	7.10	7.33

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March-2025	33.36	CARE A-; Positive
Fund-based - LT-Working Capital Limits	-	-	-	79.00	CARE A-; Positive
Fund-based - LT-Cash Credit	-	-	-	6.00	CARE A-; Positive
Non-fund-based - ST-BG/LC	-	-	-	5.10	CARE A2
Fund-based - LT-Line Of Credit	-	-	-	10.00	CARE A-; Positive
Fund-based - LT-Line Of Credit	-	-	-	3.50	CARE A-; Positive

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	33.36	CARE A-; Positive	1)CARE A-; Stable (06-Apr-20)	-	1)CARE A-; Stable (11-Mar-19) 2)CARE A-; Stable (06-Apr-18)	1)CARE BBB+; Stable (14-Apr-17)
2.	Fund-based - LT-Working Capital Limits	LT	79.00	CARE A-; Positive	1)CARE A2 (06-Apr-20)	-	1)CARE A2 (11-Mar-19) 2)CARE A2 (06-Apr-18)	1)CARE A3+ (14-Apr-17)

3.	Fund-based - LT-Cash Credit	LT	6.00	CARE A-; Positive	1)CARE A-; Stable (06-Apr-20)	-	1)CARE A-; Stable (11-Mar-19) 2)CARE A-; Stable (06-Apr-18)	1)CARE BBB+; Stable (14-Apr-17)
4.	Non-fund-based - ST-BG/LC	ST	5.10	CARE A2	1)CARE A2 (06-Apr-20)	-	1)CARE A2 (11-Mar-19) 2)CARE A2 (06-Apr-18)	1)CARE A3+ (14-Apr-17)
5.	Fund-based - LT-Line Of Credit	LT	10.00	CARE A-; Positive	1)CARE A2 (06-Apr-20)	-	1)CARE A2 (11-Mar-19) 2)CARE A2 (06-Apr-18)	1)CARE A3+ (14-Apr-17)
6.	Fund-based - LT-Line Of Credit	LT	3.50	CARE A-; Positive	1)CARE A2 (06-Apr-20)	-	1)CARE A2 (11-Mar-19) 2)CARE A2 (06-Apr-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Line Of Credit	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Fund-based - LT-Working Capital Limits	Simple
5.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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