

Kag Granito LLP

September 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	19.53 (Reduced from 26.28)	CARE BB; Stable	Reaffirmed; Outlook revised from Negative
Short Term Bank Facilities	5.50	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of KAG Granito LLP (KAG) is on account of moderate scale of operations and profitability, moderate capital structure and debt coverage indicators and stretched liquidity during FY24 (Provisional, FY refers to period from April 1 to March 31). The ratings also take into consideration its presence in a highly competitive ceramic industry and fortunes linked to demand from cyclical real estate sector along with susceptibility of profit margins to volatility in raw material and fuel costs along with limited liability partnership nature of constitution. The ratings, however, continue to derive strength from experienced promoters and locational advantage in form of easy access to raw material, fuel, and labour.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable improvement in scale of operations as marked by Total Operating Income (TOI) by 50% or more while sustaining profit margins.
- Improved liquidity position with reduction in operating cycle to below 70 days.

Negative factors

- Decline in scale of operations by more than 40% with dip in cash accruals vis-à-vis debt repayments.
- Deterioration in capital structure marked by overall gearing of higher than 3 times.
- Deterioration in liquidity level with any further elongation in operating cycle.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the credit profile of KAG in the medium term would remain stable with no further blockage of funds in trade receivables. The outlook was 'Negative' on account of expected blockage of funds in receivables, which was anticipated to have an impact on the liquidity position of KAG in the near term. However, receivables level decreased to 37% of TOI as on March 31, 2024, as against 50% of TOI as on March 31, 2023.

Detailed description of the key rating drivers:

Key weaknesses

Moderate scale of operations and profitability

The scale of operations of the firm as marked by TOI grew by 20% in FY24 with an increase in the sales quantum. However, TOI remained moderate at Rs.111.56 crore in FY24 as against Rs.92.99 crore in FY23. The profitability position is on declining trend y-o-y, which continue to remain in moderate as marked by PBILDT margin of 6.92% in FY24 as against 8.63% in FY23 on account of increase in the cost of raw material consumed.

Moderate capital structure and debt coverage indicators

The capital structure of KAG improved as marked by an overall gearing ratio of 0.99x as on March 31, 2024 (1.06x as on March 31, 2023) mainly due to profits accumulated in the business. The debt coverage indicators continue to remain moderate marked by an interest coverage ratio of 3.17x in FY24 as against 3.36x in FY23.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Presence in a highly competitive ceramic industry and fortune linked to demand from cyclical real estate sector

KAG operates in highly competitive segment of the ceramic industry marked by presence of large number of organized and unorganized players and low entry barriers which may result in new entrants. This situation could further increase the level of competition and further put pressure on profitability of the manufacturers. Also, most of the demand for tiles comes from the real estate industry, which, in India is highly fragmented and cyclical. Thus, any negative impact on real estate industry adversely affects the prospects of ceramic tiles industry as well as the entity.

Susceptibility of operating margins to volatility in raw material and fuel costs

Prices of raw material i.e. clay is market driven and puts pressure on the margins of tile manufacturers in case of volatility into the same. Another major cost component is fuel expenses in the gas form to fire the furnace. The profitability of KAG remains exposed to volatile PNG prices, mainly on account of its linkages with the international demand-supply of natural gas. Hence, any adverse movement in material and fuel prices impacts profitability of the entity.

Limited Liability Partnership nature of constitution

Being a limited liability partnership, KAG is exposed to inherent risk of partners' capital being withdrawn at time of personal contingency, and entity being dissolved upon the death/retirement/insolvency of partners which may affect financial flexibility of the firm. However, during FY24, partners have infused Rs.0.66 crore to support the operations.

Key strengths

Experienced promoters and well-established presence in the ceramic industry

KAG was formed in September, 2016 as a limited liability partnership, while commercial operations commenced from October 2017. Promoters of Kadivar family took over KAG during FY20 and started manufacturing Glazed Vitrified Tiles from June 2020 onwards. Mr. Ghanshyambhai Kadivar, Mr. Upendrabhai Kadivar, Mr. Abhishek Kadivar and Mr. Sanjaykumar Kadivar are designated partners who holds and experience of more than a decade in same line of business through their association with other associate entities. KAG will continue to benefit from existing marketing and distribution network of its other associate entities.

Located in the ceramic hub with easy access to raw material, fuel and labour

The manufacturing facilities of KAG is in Morbi, Gujarat which is one of the largest ceramic clusters in India. Primary raw material i.e. clay is easily available from Gujarat and parts of Rajasthan while glaze material (frit) is sourced from Mumbai and Gujarat. KAG uses piped natural gas (PNG) as fuel for firing of kilns which is supplied by a Gujarat State PSU, Gujarat Gas Ltd. Moreover, as major ports (such as Kandla and Mundra) are located in the vicinity of Morbi, it also lowers the transportation cost and helps the exporters of ceramic products from that region.

Liquidity: Stretched

Liquidity remained stretched marked by high working capital facility utilization and negative cash flows from operations during FY24. The average utilization of its working capital limit remained high at 85% for past twelve months ended July 2024. The cash flow from operating activity improved however it remained negative at Rs.0.40 crore during FY24 as against Rs.3.68 crore in FY23 due to realization from trade receivables as well as advance received from customers. Receivables level decreased to 37% of TOI as on March 31, 2024 as against 50% as on March 31, 2023. The operating cycle continue to remain elongated at 139 days for FY24 (FY23: 122 days). Cash and bank balance remained modest at Rs.0.05 crore as on March 31, 2024. The current and quick ratio remained at 1.60x and 1.16x respectively as on March 31, 2024. However, the cash accruals remained adequate at Rs.5.79 crore for FY24 to repay debt obligations of Rs.2.53 crore arising in FY25.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Ceramics

Morbi-based (Gujarat) KAG was incorporated on September 15, 2016 as a limited liability partnership engaged into manufacturing of Glazed Vitrified Tiles (GVT) and Polished Glazed Vitrified Tiles (PGVT). KAG was taken over in April 2020 by promoters of Kadivar family and managed by key partners Mr. Ghanshyam Kadivar and Mr. Abhishek Kadivar. Earlier entity was engaged into manufacturing in nano polish tiles in same premises. KAG has an installed capacity of manufacturing 12000 boxes per day (size- 600 *1200) as on March 31, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	92.99	111.56
PBILDT	8.02	7.72
PAT	2.08	2.08
Overall gearing (times)	1.06	0.99
Interest coverage (times)	3.36	3.17

A: Audited; P: Provisional, Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	16.00	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	31/08/2027	1.91	CARE BB; Stable
Fund-based - LT-Working Capital Demand loan		-	-	-	1.62	CARE BB; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	5.50	CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	1.91	CARE BB; Stable	-	1)CARE BB; Negative (03-Aug-23)	1)CARE BB; Stable (04-Aug-22)	1)CARE BB-; Stable (03-Sep-21)
2	Fund-based - LT-Cash Credit	LT	16.00	CARE BB; Stable	-	1)CARE BB; Negative (03-Aug-23)	1)CARE BB; Stable (04-Aug-22)	1)CARE BB-; Stable (03-Sep-21)
3	Non-fund-based - ST-Bank Guarantee	ST	5.50	CARE A4	-	1)CARE A4 (03-Aug-23)	1)CARE A4 (04-Aug-22)	1)CARE A4 (03-Sep-21)
4	Fund-based - LT-Working Capital Demand loan	LT	1.62	CARE BB; Stable	-	1)CARE BB; Negative (03-Aug-23)	1)CARE BB; Stable (04-Aug-22)	-
5	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	-	-	-	1)Withdrawn (03-Aug-23)	1)CARE BB; Stable / CARE A4 (04-Aug-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities- Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working Capital Demand loan	Simple
4	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

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

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Kalpesh Ramanbhai Patel Director CARE Ratings Limited Phone: 079-40265611 E-mail: kalpesh.patel@careedge.in
Relationship Contact Ankur Sachdeva Senior Director CARE Ratings Limited Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Sajni Shah Assistant Director CARE Ratings Limited Phone: 079- 40265636 E-mail: Sajni.Shah@careedge.in
	Jalpa Rughani Lead Analyst CARE Ratings Limited E-mail: jalpa.rughani@careedge.in

About us:

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