

Nexona Ceramic LLP

November 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	4.01 (Reduced from 4.78)	CARE BB; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	7.00	CARE BB; Stable / CARE A4	Reaffirmed
Short Term Bank Facilities	3.00 (Reduced from 4.00)	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Nexona Ceramic LLP (NCL) continues to remain constrained on account of moderate scale of operations and profitability in FY24 (Audited, FY refers to April 01 to March 31) and stretched liquidity position. The ratings further continue to remain constrained on account of its constitution as a limited liability partnership, presence in a highly competitive ceramic industry with fortunes linked to demand from cyclical real estate sector and susceptibility of profit margins to fluctuation in prices of raw materials, fuel costs and foreign exchange fluctuation risks.

The ratings however continue to derive comfort from experienced partners in ceramic industry, location advantage on account of it being in ceramic hub and takes into consideration improvement in capital structure and debt coverage indicators..

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations marked by Total operating income (TOI) above Rs.60 crore with operating margins of more than 8% on sustained basis.
- Improvement in capital structure with marked by below unity overall gearing on sustained basis.
- Improvement in liquidity position marked by improvement in operating cycle below 50 days or less on sustained basis.

Negative factors

- Decline in scale of operations by more than 40% with dip in cash accruals.
- Deterioration in liquidity level with elongation in operating cycle above 100 days
- Any debt funded capex leading to deterioration in the capital structure marked by overall gearing of above 2x.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that entity will sustain its overall financial risk profile and continue to benefit from experience of promoters in ceramic industry along with location advantage with presence in Morbi region.

Detailed description of key rating drivers:

Key weaknesses

Moderate scale of operations and profitability

Scale of operations marked by TOI though improved, remained moderate at Rs.54.56 crore in FY24 as against Rs.45.55 crore during FY23, majorly attributed to higher sales volume. During H1FY25, NCL achieved TOI of ~Rs.22 crores. The profitability position remained moderate marked by PBILDT margin at 6.04% during both FY24 and FY23 as increase in cost of raw material consumed is offset by reduction in power and fuel costs led by decrease in prices of Propane gas. PAT margin during FY24 improved to 0.86% in FY24 as against 0.50% in FY23.

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

Constitution as a limited liability partnership

The constitution as a limited liability partnership restricts NCL's overall financial flexibility in terms of limited access to external funds for any future expansion plans. Further, there is inherent risk of possibility of withdrawal of capital in times of personal contingency as it has limited ability to raise capital and poor succession planning may result in dissolution of the firm in case of death/insolvency of partner. During FY24, partners have infused Rs 0.56 crores for working capital requirement.

Presence in a highly competitive ceramic industry with fortunes linked to demand from cyclical real estate sector

The tiles and stone industry are highly competitive and fragmented with the presence of numerous organized as well as unorganized players operating in the domestic market. This leads to an increase the level of competition in the market which might put pressure on profitability of the existing as well as new players. Furthermore, most of the demand for the tiles comes from the real estate industry, which, in India is highly fragmented and cyclical. The real estate industry is also highly sensitive to the interest rates and liquidity position in market. Thus, any negative impact on real estate industry will adversely affect the prospects of ceramic tiles industry as well as the company. Moreover, NCL operates in highly competitive segment of the tiles and stone industry marked by low entry barriers, presence of large number of organized and unorganized players with capex planned by existing players in the industry as well as new entrants.

Susceptibility of profit margins to fluctuation in prices of raw materials, fuel costs and foreign exchange fluctuation risks

Prices of raw material i.e., clay is market driven and puts pressure on the margins of tile manufacturers. Another major cost component is fuel expenses in the form of propane or natural gas, which keeps on fluctuating as per global demand-supply scenarios. NCL's ability to source natural gas at competitive rates and its ability to control its cost structure remain crucial especially considering competitive environment. Also, the entity exports part of its products to various countries, which expose its profit margins to foreign exchange fluctuation risks in absence of active foreign exchange hedging policy. Power & fuel expenses reduced during FY24 as against FY23 due to decrease in prices of propane gas.

Key strengths

Improved capital structure and debt coverage indicators:

NCL's capital structure improved marked by an overall gearing of 1.04x as on March 31, 2024, as against 1.35x as on March 31, 2023, on account of scheduled repayment of term debt along with improvement in net worth base with accretion of profits to reserves. Debt coverage indicators also improved marked by total debt to gross cash accruals (TDGCA) of 5.77 years as on March 31, 2024, as against 8.34 years as on March 31, 2023, on account of low debt as on balance sheet date. Furthermore, interest coverage slightly improved to 2.73 times during FY24 as against 2.51 times during FY23.

Experienced partners in the ceramic industry

The key partners, Mr. Piyush Santoki have around 8 years of experience and Mr. Chandresh Bhadja has around 12 years of experience in ceramic industry through their associate firms. All other remaining partners also have a good reputation in the ceramic industry and hold an average experience of more than five years in same line or other line of business activities.

Located in Ceramic Hub

The manufacturing unit of NCL in Morbi, Gujarat, benefits from the easy availability of major raw materials, as it is situated in one of the world's largest ceramic clusters. This location also ensures a steady supply of contractors and skilled labourers. Additionally, the well-connected road network in the area offers significant logistical advantages.

Liquidity: Stretched

NCL's liquidity position remained stretched marked by tightly matched cash accruals of Rs.2.17 crore in FY24 as against debt repayments of Rs.1.80 crore arising in FY25. The operating cycle during FY24 remained at 71 days. The average monthly utilization for the past twelve months ended September 2024 remained high at ~95%. The current ratio and the quick ratio remained moderate at 1.41x and 1.04x as on March 31, 2024, respectively. Cash and bank balances remained at Rs.2.78 crore as on March 31, 2024. Cash flow from operation improved to Rs. 3.48 crore in FY24 as against negative Rs.2.69 crore in FY23 on account of realisation from receivables and inventories.

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

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Ceramics

Morbi (Gujarat) based Nexona Ceramic LLP (NCL) was incorporated during October 2017 as a Limited Liability Partnership, promoted by Mr. Piyush Santoki and Mr. Chandresh Bhadja with ten other partners. NCL is into manufacturing of wall tiles, and it operates from its manufacturing facilities located at Village, Ratvirda, Wankaner, Morbi with an installed capacity of 64,800 Metric Tonnes Per Annum (MTPA) as on March 31, 2024. NCL manufactures variety of Digital wall tiles. The key partners of NCL, Mr. Piyush Santoki and Mr. Chandresh Bhadja, are also associated with other associate concerns viz. Setmax Ceramic and Watero Sanitary LLP which are into similar line of business.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	45.59	54.56
PBILDT	2.75	3.30
PAT	0.23	0.47
Overall gearing (times)	1.35	1.04
Interest coverage (times)	2.51	2.73

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	March-2028	4.01	CARE BB; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	7.00	CARE BB; Stable / CARE A4
Non-fund-based - ST-Bank Guarantee		-	-	-	3.00	CARE A4

Annexure-2: Rating history for 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)CARE BB; Stable (28-Jun-22) 2)Withdrawn (28-Jun-22)	1)CARE BB; Stable (28-Jun-21)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)CARE BB; Stable (28-Jun-22) 2)Withdrawn (28-Jun-22)	1)CARE BB; Stable (28-Jun-21)
3	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	-	1)CARE A4 (28-Jun-22) 2)Withdrawn (28-Jun-22)	1)CARE A4 (28-Jun-21)
4	Fund-based - LT-Term Loan	LT	4.01	CARE BB; Stable	-	1)CARE BB; Stable (07-Dec-23)	1)CARE BB; Stable (23-Nov-22)	-
5	Fund-based - LT/ST-Cash Credit	LT/ST	7.00	CARE BB; Stable / CARE A4	-	1)CARE BB; Stable / CARE A4 (07-Dec-23)	1)CARE BB; Stable / CARE A4 (23-Nov-22)	-
6	Non-fund-based - ST-Bank Guarantee	ST	3.00	CARE A4	-	1)CARE A4 (07-Dec-23)	1)CARE A4 (23-Nov-22)	-

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

Annexure-4: Complexity level of instruments rated: Not Applicable

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple
3	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 complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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