Stylam Industries Limited

March 23, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	108.13 (Reduced from 131.86)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Positive (Single A Minus; Outlook: Positive)
Short Term Bank Facilities	20.10 (Enhanced from 5.10)	CARE A2+ (A Two Plus)	Revised from CARE A2 (A Two)
Total Bank Facilities	**128.23 (Rs. One Hundred Twenty-Eight Crore and Twenty-Three Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Stylam Industries Limited (SIL) factors in improvement in the scale of operations during FY21 (refers to the period from April 01 to March 31) and 9MFY22 (refers to the period from April 01 to December 31) driven by uptick in demand of laminated sheets despite Covid-19 disruptions, comfortable financial risk profile marked by low overall gearing, and healthy profitability margins. Further, the ratings continue to derive strength from the experience of promoters, company's long track record of operations, and established presence in the export segment. However, the ratings are constrained by 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 - Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operations with PBILDT margin above 17% on a sustained basis.
- Steady cash flow from operations leading to further improvement in liquidity on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in scale of operations with total operating income below Rs.600.00 crore on a sustained basis.
- Deterioration in the PBILDT margins to below 15% on a sustained basis.
- Any major debt funded capex resulting in deterioration of capital structure to above 0.80x.

Detailed description of the key rating drivers

Key Rating Strengths

Growing scale of operations coupled with improving profitability margins: The total operating income of the company grew marginally by 3.91% to Rs.480.48 crore in FY21 (PY: Rs.462.41 crore) despite Covid-19 disruptions. The PBILDT margin of the company improved to 20.82% (PY: 17.30%) in FY21 on account of lower raw material costs and increased volume of high yielding margin products sold in FY21 like acrylic and lacquer coating. Further, the PAT margin of the company improved substantially from 4.04% in FY20 to 11.51% in FY21 on account of improvement in the PBILDT margin and reduction in interest expense as a result of low utilization of working capital borrowings. During 9MFY22, the total operating income of the company grew by 55.14% to Rs.480.64 crore (PY: Rs.309.81 crore) driven by higher proportion of domestic sales. However, the PBILDT margin of the company declined to 17.63% (PY: 20.97%) driven by increase in cost of raw material. However, the PAT margin declined marginally from 10.28% during 9MFY21 to 9.27% in 9MFY22.

Improvement in financial risk profile: The overall gearing of the company improved further and stood comfortable at 0.24 times as on March 31, 2021 (PY: 0.60 times) on account of repayment of term loan, lower working capital borrowings outstanding as on balance sheet date and accretion of profits to net-worth. Debt coverage indicators of the company improved further and stood comfortable as reflected by interest coverage ratio of 16.62x (PY: 7.33x) and total debt/GCA of 0.81x (PY: 3.07x) in FY21.

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.

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

Key Rating Weaknesses

Elongated operating cycle: The operating cycle of the company stood elongated at 103 days, as on March 31, 2021 (PY: 100 days). 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 73 days, as on March 31, 2021 (PY: 64 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 72 days, as on March 31, 2021 (PY: 65 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 FY21, the company earned approximately 69% of its total operating income from exports. The company also imported around 40% 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 – The liquidity profile of the company is adequate as reflected by projected gross cash accruals to the tune of Rs.80.44 crore in FY22 against scheduled repayment of Rs.16.55 crore (SIL has already repaid Rs.11.30 crore during 9MFY22). Further, average utilization of working capital limits during the trailing 12 months ended January, 2022 stood low at 49%. The company had free cash and bank balance of Rs.15.01 crore as on March 31, 2021. Further, the company is planning to incur capex to the tune of Rs.15.00 crore in FY22 pertaining to modernization of plant and machinery which shall be funded through internal accruals.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
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, Haryana, having an installed capacity of 14.3 million sheets per annum, as on December 31, 2021. 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)	FY20 (A)	FY21 (A)	9MFY22 (P)
Total operating income	462.41	480.48	480.64
PBILDT	79.98	100.05	84.76
PAT	18.68	55.30	44.56
Overall gearing (times)	0.60	0.24	0.31
Interest coverage (times)	7.33	16.62	14.87

A: Audited, P: Provisional

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	July, 2024	22.63	CARE A; Stable
Fund-based - LT-Working Capital Limits		-	-	-	74.00	CARE A; Stable
Fund-based - LT-Cash Credit		-	-	-	6.00	CARE A; Stable
Non-fund-based - ST-BG/LC		-	-	-	15.10	CARE A2+
Fund-based - LT-Line Of Credit		-	-	-	5.00	CARE A; Stable
Fund-based - LT-Line Of Credit		-	-	-	0.50	CARE A; Stable
Non-fund-based - ST-Forward Contract		-	-	-	5.00	CARE A2+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	22.63	CARE A; Stable	1)CARE A-; Positive (05-Apr-21)	1)CARE A-; Stable (06-Apr-20)	-	1)CARE A-; Stable (11-Mar-19) 2)CARE A-; Stable (06-Apr-18)
2	Fund-based - LT-Working Capital Limits	LT	74.00	CARE A; Stable	1)CARE A-; Positive (05-Apr-21)	1)CARE A2 (06-Apr-20)	-	1)CARE A2 (11-Mar-19) 2)CARE A2 (06-Apr-18)
3	Fund-based - LT-Cash Credit	LT	6.00	CARE A; Stable	1)CARE A-; Positive (05-Apr-21)	1)CARE A-; Stable (06-Apr-20)	-	1)CARE A-; Stable (11-Mar-19) 2)CARE A-; Stable (06-Apr-18)
4	Non-fund-based - ST-BG/LC	ST	15.10	CARE A2+	1)CARE A2 (05-Apr-21)	1)CARE A2 (06-Apr-20)	-	1)CARE A2 (11-Mar-19) 2)CARE A2 (06-Apr-18)
5	Fund-based - LT-Line Of Credit	LT	5.00	CARE A; Stable	1)CARE A-; Positive (05-Apr-21)	1)CARE A2 (06-Apr-20)	-	1)CARE A2 (11-Mar-19) 2)CARE A2 (06-Apr-18)
6	Fund-based - LT-Line Of Credit	LT	0.50	CARE A; Stable	1)CARE A-; Positive (05-Apr-21)	1)CARE A2 (06-Apr-20)	-	1)CARE A2 (11-Mar-19) 2)CARE A2 (06-Apr-18)
7	Non-fund-based - ST-Forward Contract	ST	5.00	CARE A2+				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not applicable

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

Sr. No	Name of 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
6	Non-fund-based - ST-Forward Contract	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Sachin Mathur
Contact no.: 9810865435
Email ID: sachin.mathur@careedge.in

Relationship Contact
Name: Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**