Krishna Ceracoats Industries

March 24, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	10.35 (Enhanced from 9.45)	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	2.87	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	**13.22 (Rs. Thirteen Crore and Twenty-Two Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Krishna Ceracoats Industries (KCI) continue to remain constrained on account of its modest scale of operation with moderate profitability, moderate capital structure and debt coverage indicators along with stretched liquidity during FY21 (Audited, refers to period April 01 to March 31). The ratings also continue to remain constrained on account of its partnership nature of constitution, dependence on the performance of ceramic tile industry which in turn is linked to cyclical real estate sector and its presence in a highly competitive and fragmented industry along with susceptibility of profitability margins to volatility of prices of raw material, fuel and foreign exchange rate.

The ratings, however, continue to draw strength from experience of partners in the industry along with established track record of operation and location advantage in terms of its proximity to end user industry along with successful completion of debt funded capex within time and cost parameters.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in scale of operation by 50% with achieving PBILDT margin of more than 10%
- Improvement in capital structure marked by overall gearing ratio below 1.50 times along with improvement in tangible net worth

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

- Decline in total operating income by more than 20% with any decline in overall profitability level marked by PBILDT margin below 6.50% and PAT margin below 2%
- Deterioration in leverage position marked by overall gearing ratio above 2.50x and deterioration in tangible net worth position beyond current levels due to withdrawal of capital

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate Scale of operation and profitability

During FY21, TOI of KCI declined by 19.56% due to COVID impact and remained modest at Rs.22.74 crore as against Rs. 28.27 crore in FY20. During FY21, PBILDT margin improved and remained moderate at 8.71% as against 6.73% during FY20 mainly on account of decrease in fuel cost during the year. As a result, PBILDT in absolute term increased to Rs.1.98 crore in FY21 from Rs.1.90 crore in FY20. However, on back of increase in depreciation and interest cost during the year, PAT margin declined marginally at 2.47% during FY21 as against 2.81% during FY20. Gross cash accruals remained at Rs.1.13 crore in FY21 vis-à-vis Rs.1.18 crore in FY20.

Leveraged capital structure and moderate debt coverage indicators

As a result of decrease in tangible net worth base on back of capital withdrawal by partners coupled with increase in total debt marked by higher working capital utilization as on balance sheet date along with addition of term loan and GECL loan during FY21, capital structure of KCI deteriorated and remained leveraged marked by an overall gearing of 2.09 times as on March 31, 2021 as against 0.59 times as on March 31, 2020.

As a result of marginal decrease in gross cash accruals with increase in debt level, debt coverage indicators deteriorated over FY20 marked by total debt to gross cash accrual of 8.72 years as on March 31,2021 as against 3.95 years as on March 31, 2020 while interest coverage ratio remained moderate at 2.34 times during FY21 as compared to 2.64 times during FY20 due to increase in finance cost.

Presence in a highly competitive and fragmented industry along with susceptibility of profitability margins to volatility of prices of raw material, fuel and foreign exchange rate fluctuation

KCI operates in a highly fragmented and unorganized market for its products with presence of large number of small and medium sized players. The industry is characterized by low entry barriers due to minimal capital required and less bargaining

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

power with its customer and supplier. This situation is likely to increase the level of competition which is expected to put pressure on profitability of the manufacturers.
Prices of raw material i.e. feldspar and zinc oxide are market driven and expected to put pressure on the margins of firm. Another major cost component is fuel expenses in the gas form. The profitability of KCI remains exposed to volatile natural gas prices, mainly on account of its linkages with the international demand-supply of natural gas. As the material and fuel cost covers 88% of total cost of sales during FY21, any adverse movement in material and natural gas prices will impact profitability of the firm.
KCI is exposed to the fluctuation in foreign exchange as import covers around 28% of its total material consumption cost. KCI imports raw material from Turkey and Singapore. As the firm is not using ant active hedging policy to manage foreign exchange exposure, any adverse movements in foreign exchange rate can have a negative effect on the profitability of the firm.

Prospects dependent on the performance of ceramic tile industry which in turn is linked to cyclical real estate sector
KCI primarily caters to ceramic tiles players located in Gujarat. Since, ceramic glaze frit finds its application in tiles industry and hence demand for the same is dependent on prospects of the tiles industry which in turn is dependent on the cyclical real estate sector. Any negative impact on real estate industry will adversely affect the prospects of ceramic tiles industry consequently the performance of KCI. However, with the completion of project of Ceramic table wares, KCI has diversified itself and hence dependency on tile industry has been reduced to some extent.

Partnership nature of constitution
KCI being a partnership firm is exposed to inherent risk of partners' capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of key partner. Partners' had withdrawn Rs.3.74 crore of capital during FY21, however Rs.3.00 crore had been infused on April 02, 2021 as per management.

Key Rating Strengths
Experienced partners along with established track record of operation
Mr. Ketan M Thakkar and Mr. Parth K Thakkar are partners of KCI and look after overall operations of the firm. Mr. Ketan Thakkar holds around three decades of experience whereas Mr. Parth K Thakkar hold more than one decade of experience in same line of business. KCI was established in 1993 reflects its established track record of around three decades in manufacturing ceramic frit.

Location advantage in terms of proximity to end users
The manufacturing facility of KCI is located at Jambusar, Bharuch region of Gujarat. Gujarat is one of the largest ceramic tile manufacturing states in India with Morbi, Himmatnagar and Kadi being the main clusters. Accordingly, KCI enjoys location advantage in terms of proximity to its end user industry. Further, the firm is also benefitted from easy availability of some of its raw materials including feldspar, zinc oxide etc and natural gas (primary fuel) supply available in the region. The company has arrangement for supply of gas with Oil and Natural Gas Corporation Limited

Successful completion of debt funded capex within time and cost parameters
KCI had completed debt funded capex to manufacture ceramic table ware at a projected cost of Rs.5.46 crore which was funded through term loan of Rs.2.50 crore and balance through internal accruals. The installed capacity is 2000 metric tonnes per annum (MTPA). The commercial operations began from June 2021 onwards.

Liquidity: Stretched
Liquidity position remained stretched marked by low cash accruals against repayment obligations, low cash and bank balance, elongated working capital cycle, moderate cash flow from operation and moderate utilization of its working capital limit. Cash accruals remained low at Rs.1.14 crore against its repayment obligation of Rs.1.11 crore for FY22. Further, Cash and bank balance was also low at Rs.0.10 crore as on March 31, 2021 while cash flow from operating activity remained moderate at Rs.2.72 crore during FY21. Furthermore, average utilization of working capital bank borrowing remained moderate at 65% for last one year ended February, 2022. The operating cycle remained elongated at 94 days in FY21 against 83 days in FY20 as result of increase in inventory holding period.

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 firm
Jambusar (Gujarat) based KCI, was established as proprietorship firm by Mr. Ketan M Thakkar in 1993. Further during October 2010, the constitution of KCI changed to Partnership Firm. Mr. Ketan M Thakkar and Mr. Parth K Thakkar are the partners of

the firm and both partners jointly manage overall operation of KCI. KCI is engaged in manufacturing of ceramic frit and operating from its sole manufacturing plant located in Jambusar (Gujarat) with installed capacity of 24,000 Metric Tonnes per Annum as on March 31, 2021. KCI also manufactures ceramic frit on job work basis. Further, KCI had completed CAPEX to manufacture ceramic table ware with installed capacity of 2000 MTPA at a total project cost of Rs.5.46 crore. The project completed by May 2021 and operations were commercialized from June 2021 onwards.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	11MFY22 (Prov.)
Total operating income	28.28	22.74	25.00
PBILDT	1.90	1.98	NA
PAT	0.79	0.56	
Overall gearing (times)	0.59	2.10	
Interest coverage (times)	2.64	2.34	

A: Audited, Prov.: Provisional; NA: Not 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: Please refer Annexure-3

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

Banker/Lender details: Please refer Annexure-5

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-Cash Credit		-	-	-	6.00	CARE BB; Stable
Non-fund-based - ST-Letter of credit		-	-	-	0.87	CARE A4
Non-fund-based - ST-Letter of credit		-	-	-	2.00	CARE A4
Fund-based - LT-Term Loan		-	-	May 2027	2.05	CARE BB; Stable
Fund-based - LT-Working capital Term Loan		-	-	December 2026	2.30	CARE BB; Stable

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	-	-	-	-	1)Withdrawn (06-Dec-19)	1)CARE BB; Stable (07-Sep-18)
2	Fund-based - LT-Cash Credit	LT	6.00	CARE BB; Stable	-	1)CARE BB; Stable (15-Feb-21)	1)CARE BB; Stable (06-Dec-19)	1)CARE BB; Stable (07-Sep-18)
3	Non-fund-based - ST-Letter of credit	ST	0.87	CARE A4	-	1)CARE A4 (15-Feb-21)	1)CARE A4 (06-Dec-19)	1)CARE A4 (07-Sep-18)
4	Non-fund-based - ST-Letter of credit	ST	2.00	CARE A4	-	1)CARE A4 (15-Feb-21)	1)CARE A4 (06-Dec-19)	1)CARE A4 (07-Sep-18)
5	Fund-based - LT-Proposed fund based limits	LT	-	-	-	-	-	1)Withdrawn (07-Sep-18)
6	Non-fund-based - ST-Proposed non fund based limits	ST	-	-	-	-	-	1)Withdrawn (07-Sep-18)
7	Fund-based - LT-Term Loan	LT	2.05	CARE BB; Stable	-	1)CARE BB; Stable (15-Feb-21)	-	-
8	Fund-based - LT-Working capital Term Loan	LT	2.30	CARE BB; Stable	-	1)CARE BB; Stable (15-Feb-21)	-	-

* 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-Term Loan	Simple
3	Fund-based - LT-Working capital Term Loan	Simple
4	Non-fund-based - ST-Letter of credit	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 has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.*

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