

## Imlis Ceramica LLP

December 29, 2022

### Ratings

| Facilities                   | Amount (₹ crore)   | Ratings <sup>1</sup>                                  | Rating Action |
|------------------------------|--|---|---------------|
| Long Term Bank Facilities    | 34.90  | CARE BB-; Stable<br>(Double B Minus; Outlook: Stable) | Assigned      |
| Short Term Bank Facilities   | 6.00   | CARE A4<br>(A Four)                                   | Assigned      |
| <b>Total Bank Facilities</b> | <b>40.90</b><br><b>(₹ Forty Crore and Ninety Lakhs Only)</b> |   |               |

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Imlis Ceramica LLP (ICL) are constrained on account of project stabilization risk emanating from nascent stage of operations, presence in highly fragmented and competitive industry, and fortunes linked to demand from cyclical real estate industry. The ratings are further constrained by susceptibility of profit margins to volatility in raw material and fuel cost and limited liability partnership nature of constitution.

The above weaknesses are partially offset by the experience of partners in the similar line of business, strategic location of the plant, and accessibility to existing selling and distribution network of the associate companies.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Stabilization of the project thereby resulting in generation of revenues and profitability as envisaged

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Any delays in stabilization of the project resulting in underachievement of envisaged revenue and profitability
- Any un-envisaged incremental borrowings

### Detailed description of the key rating drivers

#### Key rating weaknesses

##### ***Project stabilisation risk emanating from nascent stage of operations***

The firm has recently set up the manufacturing unit of Glazed Vitrified Tiles (GVT) with an installed capacity to manufacture 87,500 metric ton of GVT per annum. The commercial operations are expected to commence by the end of December 2022 which exposes the firm to the project stabilization risk with initial teething issue. However, considering the experience of promoters in the similar line of business, the risk is mitigated to some extent.

##### **Presence in a highly competitive ceramic industry**

The ceramic tile industry in India is highly competitive. Low entry barriers, easy availability of raw material and limited initial capital investment requirement has attracted a large influx of unorganized and regional players. Hence, ICL's ability to scale up its operations and achieve healthy capacity utilization levels in the light of the competitive vitrified tile industry would be crucial.

##### **Fortunes linked to demand from cyclical real estate sector**

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 interest rates and liquidity position in the market. Thus, any negative impact on the real estate industry will adversely affect the prospects of ceramic tiles industry as well as the company. However, due to anti-China movement and faster than expected recovery of demand in the domestic market, scaling up of operations by ceramic tile entities has been faster than envisaged. The sustainability of this growth, domestically as well as export remains a key monitorable going forward.

##### **Susceptibility of profit margins to volatility in raw material and fuel costs along with currency fluctuation risk**

Prices of raw material i.e. clay and feldspar 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 expense in the gas form which is to fire the furnace. The profitability of ICL is also exposed to volatile Liquefied Natural Gas (LNG) prices, mainly on account of its linkages with the

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

international demand-supply of natural gas along with propene prices. Hence any adverse movement in material and fuel prices shall impact the profitability of the firm.

**Limited Liability Partnership nature of constitution**

Being a partnership firm, ICL is exposed to inherent risk of partners' capital being withdrawn, and firm being dissolved upon the death/retirement/insolvency of partners which may affect financial flexibility of the firm.

**Key rating strengths****Strategically located manufacturing unit**

The manufacturing facility of ICL is located 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. The company will use liquefied natural gas (LNG) 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.

***Experienced partners***

The firm is promoted by Mr. Ashokbhai Kanjibhai Detroja, Mr. Ghanshyambhai Ramjibhai Moradiya, and Mr. Manish Jayantilal Moradiy along with other partners of the firm. The promoters are associated with other entities which are engaged in varied businesses including manufacturing and trading of vitrified tiles for more than one decade. Being in the business for so long has helped the promoters in gaining adequate acumen about the business which is expected to aid in smooth operations of ICL.

**Accessibility of existing selling and distribution network of the associate companies**

The partners of the firm have long experience in the ceramic industry through their association with its associate entities. These associate entities are majorly engaged into manufacturing of vitrified tiles and wall tiles. ICL has an advantage of established selling and distribution network of its associate companies which will be helpful for expanding its own setup of dealer and marketing network.

**Liquidity analysis:** Adequate

The liquidity position of the firm is adequate marked by sufficient cushion available to fund the ongoing operations. Repayments of the term loan are scheduled to begin from July 2023. GCA is expected to be in the range of Rs. 6-8 crore as against the repayment obligations in the range of Rs.2-4 crore annually. Further the firm has also availed the working capital limits of Rs.10.00 crore for working capital management.

**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](#)

[Rating Methodology - Project Stage Entities](#)

[Policy on Withdrawal of Ratings](#)

**About the company**

Established in the year 2021, Imlis Ceramica LLP (ICL) is promoted by Mr. Ashokbhai Kanjibhai Detroja, Mr. Ghanshyambhai Ramjibhai Moradiya, and Mr. Manish Jayantilal Moradiya. The firm has recently set up a manufacturing unit of ceramic glazed vitrified tiles (GVT) with an installed capacity of 87,500 Metric Ton Per Annum (MTPA). The total cost of the project was Rs.46.28 crore which was funded through term loan from bank (53%) and partner's contribution (47%). The commercial operations of the firm are expected to commence by the end of December 2022.

**Brief financials:** Not applicable being a project stage entity

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** 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 (₹ crore) | Rating Assigned along with Rating Outlook |
|------------------------------------|------|------------------|-----------------|---------------|-----------------------------|---|
| Fund-based - LT-Cash Credit        | -    | -                | -               | -             | 10.00                       | CARE BB-; Stable                          |
| Fund-based - LT-Term Loan          | -    | -                | -               | 30-06-2029    | 24.90                       | CARE BB-; Stable                          |
| Non-fund-based - ST-Bank Guarantee | -    | -                | -               | -             | 6.00                        | 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 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1       | Fund-based - LT-Term Loan              | LT              | 24.90                        | CARE BB-; Stable |   |   |   |   |
| 2       | Fund-based - LT-Cash Credit            | LT              | 10.00                        | CARE BB-; Stable |   |   |   |   |
| 3       | Non-fund-based - ST-Bank Guarantee     | ST              | 6.00                         | CARE A4          |   |   |   |   |

**Annexure-3: Detailed explanation of the covenants of the rated instruments/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       | Non-fund-based - ST-Bank Guarantee | 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 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.

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