MBO Granito LLP (Revised)

June 30, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	49.33	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	3.85	CARE BB; Stable / CARE A4 (Double B ; Outlook: Stable/ A Four)	Assigned
Total Bank Facilities	**53.18 (₹ Fifty-Three Crore and Eighteen Lakhs Only)**		

Details of facilities in Annexure-1

Detailed rationale and key rating drivers

The rating assigned to bank facilities of MBO-Granito LLP (MGL) remains constrained on account of moderate scale of its operations with thin profitability margins, constitution as a Limited Liability Partnership (LLP) and stretched liquidity profile. The ratings further remain constrained due to its presence in highly competitive and fragmented ceramic tile industry and susceptibility of its profitability to volatile raw material and fuel prices and foreign exchange rates.

The ratings, however, derive strength from MGL's experienced partners with an established track record in the ceramic industry, strategic location of its tile manufacturing unit, established marketing and distribution network coupled with moderate capital structure and debt coverage indicators.

Rating sensitivities

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

- Sustained improvement in PBILDT margin above 15%.
- Sustained improvement in scale of operations above Rs.180 crore.

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

- Deterioration in overall gearing beyond 3 times.
- Increase in working capital intensity resulting in elongation of the working capital cycle to more than 150 days.

Detailed description of the key rating drivers

Key rating weakness

Moderate scale of operations with thin profitability margins:

During the past three years ended on FY21, MGL's scale of operations has largely remained stable in the range of Rs.70-150 crore. MGL's TOI reported growth of 37% to Rs.151 crore in FY21 as compared to Rs.110 crore during FY20. However, during FY22 the firm reported TOI of around Rs.88.30 crore, the dip in TOI in FY22 was on account of shift in product profile from Nano tiles to Galvanized Vitrified tiles. Further, TOI was also affected owing to suspension in operations of the firm for the modernisation capex for 2 months in Q3FY22.

While MGL's PBILDT margin remained in the range of 10-12% from FY18-FY20, it declined by 704 bps y-o-y to 3.87% in FY21 due to increase in trading activity. Consequently, PAT margin moderated by 176 bps to 2.93% in FY21(PY: 4.69). During FY22 (provisional), PBILDT margin recovered to 7.78% with change in product portfolio.

Constitution as an LLP firm:

Being a partnership firm, MGL is susceptible to risk associated with withdrawal/ transfer of capital by the partners which may lead to deterioration in the firm's capital structure. However, since inception partners have withdrawn capital around Rs. 5.93 crore only during FY21 (refers to the period April 01 to March 31).

Working capital intensive nature of operations:

Ceramic tile manufacturing sector has high working capital intensity mainly due to higher inventory holding and extension of elongated credit period to dealers.

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

Presence in highly fragmented industry with fortunes dependent upon real estate market:
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 large influx of unorganized and regional players. Moreover, the ceramic tile industry has strong linkages with the real estate industry, which, in India is highly fragmented and cyclical.

Susceptibility of profitability to volatility in prices of fuel and raw materials and foreign exchange rates:
Cost of major components i.e. raw materials (clay) and power & fuel cost (i.e. Natural Gas & propane) are market-driven and hence inability of the company to pass it on to its customers may exert pressure on the profitability of the company. Furthermore, exports constituted roughly around 40% of total sales in FY22(Prov.), exposing MGL to adverse movement in forex rates.

Key rating Strengths
Experienced partners and established distribution network:
The partners have extensive experience of close to a decade in the ceramic industry vide their association with other companies in the ceramic market in Morbi, Gujarat. The firm has its own selling and distribution network across pan India. Apart from this, synergies are also established between selling and distribution channel of all group companies having common promoters/partners.

Location advantage of being present in the ceramic tile hub with easy access to raw material, manpower, power and fuel etc.:
MGL has its manufacturing unit in Morbi district in Rajkot city of Gujarat which is the largest ceramic cluster in India & second largest in the world. Primary raw materials i.e. various types of clay and minerals are easily available from Rajasthan & Gujarat. For firing of kilns, MGL uses natural gas supplied form Gujarat Gas Limited (GGL; rated CARE AA+; Stable / CARE A1+). Moreover, proximity of major ports (such as Kandla and Mundra) also lowers the transportation cost and facilitates timely export.

Moderate capital structure and debt coverage indicators:
MGL's capital structure remained moderate marked by overall gearing ratio of 1.07 times as on March 31, 2021 (FY20 end: 0.92 times). The debt coverage indicators also remained moderate marked by interest coverage and total debt to GCA of 2.10 times in FY21 (PY:3.01 times) and 4.68 years in FY21 (PY: 3.94 years) respectively.

Liquidity: Stretched
Liquidity position of MGL is envisaged to remain stretched owing to moderate cash accruals against high debt repayment obligations and working capital intensive nature of operations. The average closing utilisation of fund based working capital limits has remained around 61% for the trailing twelve months ended March 31,2022. Further, the operations of the company are supported by the promoter group with timely infusion of unsecured loan to meet ant exigencies.
MGL is envisaged to generate gross cash accruals of around Rs.10-11 crore, vis-à-vis repayment ranging from Rs.9-12 crore during the projected period.

Analytical approach: Standalone

About the company
MBO-granito LLP (MGL) was established in June 2016**,** as a limited liability partnership firm, and commenced commercial production in April,2017. The firm was previously into the manufacturing of Nano tiles of 600mm*600mm, however, from November 2021, after undertaking modernization capex for upgradation of the existing machinery it has started production of GVT of 600 mmX1200 mm size. MGL's manufacturing unit is located at Morbi, the ceramic tile manufacturing hub of Gujarat and is equipped to manufacture 1,30,500 metric tonne (MT) as on March 31, 2022. The firm sells products under its own brand name "MBO Granito".

Brief Financials (Rs. crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (P)
Total operating income	109.91	151.04	88.28
PBILDT	11.99	5.84	6.87
PAT	5.16	4.43	NA
Overall gearing (times)	0.92	1.07	NA
Interest coverage (times)	3.02	2.11	NA

A: Audited P: Provisional NA: Not available

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

Status of non-cooperation with previous CRA: INC with ICRA which was withdrawn vide press release dated March 03, 2022.

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/ST	-	-	-	-	3.85	CARE BB; Stable / CARE A4
Fund-based - LT-Cash Credit	-	-	-	-	12.50	CARE BB; Stable
Term Loan-Long Term	-	-	-	March 2027	30.13	CARE BB; Stable
Non-fund-based - LT-Bank Guarantee	-	-	-	-	6.70	CARE BB; Stable

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/ST	LT/ST*	3.85	CARE BB; Stable / CARE A4	-	-	-	-
2	Fund-based - LT-Cash Credit	LT	12.50	CARE BB; Stable	-	-	-	-
3	Term Loan-Long Term	LT	30.13	CARE BB; Stable	-	-	-	-
4	Non-fund-based - LT-Bank Guarantee	LT	6.70	CARE BB; Stable	-	-	-	-

*Long term/Short term.

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/ST	Simple
3	Term Loan-Long Term	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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About us:
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