
February 28, 2009**CARE ASSIGNS 'A' & 'PR1' RATING TO BANK LOAN FACILITIES OF NITCO LTD.**

CARE has assigned a **'CARE A' (Single A)** rating to the Long-term Bank Facilities aggregating Rs.361.57 crore (including proposed term loans of Rs.110.00 crore and proposed fund-based working-capital facilities of Rs.64.85 crore) of NITCO Ltd (NITCO). This rating is applicable for facilities having a tenure of more than one year. Facilities with this rating are considered to offer adequate safety for timely servicing of debt obligations. Such facilities carry low credit risk.

Further, CARE has assigned a **'PR1' [PR One]** rating to the Short-term Bank Facilities aggregating Rs.745.00 crore (including proposed non-fund-based working-capital facilities of Rs.463.84 crore) of NITCO. This rating is applicable for facilities having a tenure up to one year. Facilities with this rating would have strong capacity for timely payment of short-term debt obligations and carry lowest credit risk. Within this category, facilities with relatively better credit characteristics are assigned PR1+ rating.

The ratings derive strength from the established track record of the company, strong brand name, wide distribution network, stable profitability, comfortable gearing and interest coverage ratios and demonstrated ability to raise money from capital markets at regular intervals.

However, the ratings are constrained by the ongoing slowdown in the end-user real estate industry, intense competition from unorganised players in an industry with low entry barriers, project execution risk and dependence on a relatively more expensive fuel, viz. Liquefied Petroleum Gas (LPG). The ratings are further constrained by the company's foray into real estate development.

The ability of the company to manage its working-capital requirements in view of the increasing operations, ability to maintain profitability in view of negative outlook of the real estate industry and a depreciating rupee vis-à-vis the US Dollar (USD) are the key rating sensitivities.

NITCO started its operations in 1966 with a mosaic tile manufacturing facility in Thane. In 1984, it diversified into the business of import, processing and distribution of marbles in India. Further, in 1997, NITCO commenced the production of ceramic floor tiles at a greenfield facility in Alibaug, Maharashtra. In FY06, NITCO raised Rs.168 crore through an Initial Public Offering (IPO) of equity shares. During FY08, the company raised a further Rs.166 crore via a Qualified Institutional Placement (QIP) of equity shares.

NITCO is mainly engaged in the business of manufacturing different types of tiles used in residential and commercial real estate properties. The company uses LPG as one of the energy sources, the prices of which are linked to crude oil. Considering the volatility in crude oil prices and price premium over the other alternative viz. natural gas, NITCO is at some disadvantage over its peers. To mitigate the risks linked to the use of LPG, NITCO does not manufacture vitrified tiles itself but outsources manufacture of vitrified tiles to a couple of Chinese companies via long-term sourcing arrangements.

NITCO forayed into real estate development in FY08. It is developing commercial properties in Thane and is also developing properties through its real estate subsidiary, NITCO Realities Pvt. Ltd (NRPL). NITCO has given advances worth Rs.142 crore to NRPL as on March 31, 2008. Considering the negative outlook of the real estate industry, in case NRPL is not able to tie up resources for its ongoing and future projects, NITCO may be called upon to provide further support for NRPL which may strain NITCO's cash flows.

Over a period, NITCO has established a country-wide distribution network in India comprising more than 700 direct dealers and more than 5,000 retail outlets that cover 28 States in India. This has helped the company to have country-wide access to its products. NITCO's ceramic products are positioned as lifestyle products and hence command a premium compared to its competitors.

NITCO's average inventory holding period is high due to the business model adopted – it holds inventory on behalf of its dealers and at its display outlets. NITCO has undertaken an expansion of ceramic tiles' capacity from 13,500 sq mts per day to 24,000 sq mts per day at its existing facility in Alibag. The working-capital requirement of the company is expected to increase on account of the same while proportionate increase in revenues in view of the current slowdown in the real estate industry is an uncertainty.

Gearing ratios of NITCO improved as at end of FY06 and FY08 *vis-à-vis* the previous year. This was mainly on account of equity infusion in FY06 and FY08 by way of IPO and QIP, respectively. The overall gearing ratio as on March 31, 2008 was comfortable at 0.28x. Interest coverage of the company was healthy and consistently above 2x over the period under review.

NITCO is also planning to construct a marble processing facility at Silvassa. The term debt for the project is yet to be tied up, which increases the risk associated with the project.

The Indian tile industry is divided into organised and unorganised sectors. The unorganised sector approximately accounts for 55% of the total industry, bearing testimony of lower entry barriers. The key end-user industries for tiles are real estate (both commercial and residential) and organised retail. The present slowdown in the real estate industry is expected to affect the demand from developers. Further, the ongoing global economic slowdown coupled with job/salary cuts is expected to reduce the disposable income, which may affect the demand for lifestyle tile products in the short term.

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