

May 14, 2010

CARE REVISES RATINGS FOR THE BANK FACILITIES OF NITCO LIMITED

Ratings Assigned

Facilities / Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	476.57 (enhanced from Rs.361.57 crore)	'CARE BBB+' (Triple B Plus)	Revised from CARE A [Single A]
Short-term Bank Facilities	745.00	'PR2' (PR Two)	Revised from PR1 [PR One]
Total Facilities	1221.57		

Rating Rationale

The rating revision takes into account suspension of the vitrified tiles operations of the company for four months in FY10 following allegations of circumvention of anti-dumping duties, the consequent poor performance for H1FY10, project execution risk associated with ongoing expansion, intense competition from unorganised players in an industry with low entry barriers and persisting dependence on overseas suppliers in the form of outsourcing arrangement for supply of its main product viz: vitrified tiles and on imports for rough marbles.

The rating derives strength from the established track record of the company, strong brand name, its wide distribution network, very low gearing levels, and comfortable interest coverage ratio. The rating also takes cognizance of expected cost savings arising out of shift in NITCO's dependence from liquefied petroleum gas (LPG) to re-liquefied natural gas (RLNG).

The ability to maintain its existing business model in view of the uncertainty in the medium to long term over continuation of its existing outsourcing arrangement of import of its major product viz vitrified tiles and the ability to minimise the impact on profit margins of any adverse exchange rate movements are the key rating sensitivities.

Company Profile

NITCO is mainly engaged in manufacturing different types of tiles used in residential and commercial real estate properties. It started its operations in 1966 and currently offers ceramic tiles, vitrified tiles as well as processed marble. It forayed into real estate in FY08 and is developing a commercial property at Thane.

On a total income of Rs.655.43 crore, NITCO earned a PAT of Rs.24.97crore in FY09.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Consequent to allegations of circumvention/evasion of anti-dumping duties raised by the Directorate of Revenue Intelligence (DRI), the goods imported by NITCO were seized. While they were subsequently released, it led to suspension of its operations for about four months in FY10. As a result, net sales declined by around 29% to Rs.222.71 crore during H1FY10 vis-à-vis H1FY09. The company reported a net loss of Rs.2.27 crore for H1FY10 as compared to net profit of Rs. 17.81 crore for H1 FY09.

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CARE 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@careratings.com for any clarifications.

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