

Solid Stone Company Limited

January 08, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	13.80	CARE BB +; Stable (Double B Plus; Outlook: Stable)	Assigned
Total facilities	13.80 (Rs. Thirteen crore and Eighty lakh only)		

Details of instruments/facilities in Annexure I

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Solid Stone Company Limited (SSCL), continues to be constrained by modest scale of operation with fluctuating and low profit margin, working capital intensive nature of operations and operations in the highly competitive and fragmented industry with linkages to cyclical real estate sector.

The ratings however, continue to derive strength from the long track record of operations and experienced promoters in the marble industry, reputed customer base, comfortable capital structure and moderate debt coverage indicator.

The ability of SSCL to significantly increase scale of operations along with efficient management of working capital cycle are the key rating sensitivities.

Outlook: Stable

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations: On consolidated basis, SSCL's scale of operations grew at Compounded Annual Growth Rate (CAGR) of 10.11% during the period FY14-17 on account of increase in number of orders received.

Fluctuating and low profitability margins: Profitability level of the entity remained fluctuating trend owing to fluctuation in the raw marble prices. Further due to increase in cost of traded good sold and material prices, PBILDT margin has also been highly fluctuating during last three years ended FY17.

Working capital intensive nature of operations : SSCL's operations are working capital intensive in nature due to funds blocked in inventory on account of heterogeneous nature of the product necessitating storage of minimum level of stocks of different types/shades. Also since the entity deals with reputed customers it results in low bargaining power, thereby resulting in elongated collection period. The above has led to higher utilization of the working capital limits (the average utilization of the working capital limit stood at 90-100% as on 12 months ended December 2017).

Presence in highly competitive marbles industry with linkages to cyclical real estate sector: The entity operates in a highly competitive industry with limited entry barriers and thereby faces competition from many organized and unorganized players. Due to demonetisation and implication of RERA , the real estate sector has been impacted which ultimately affect the marble industry as well and which will result into impact on profitability margin and the total turnover of the companies.

Key Rating Strengths

Long track record of operation and experienced promoters in the marble industry

The promoters have been in the business of marbles industry since 1990. The managing director, Mr. Milan Khakhar, Mr. Prakash Khakhar, Ms. Vasumati Khakhar and Mr. Jeenuo Khakhar have more than three decades of experience in marble industry and look after the overall management. Furthermore the top management is supported by personnel having adequate and relevant experience in their respective fields to carry out day-to-day operations.

Reputed customer base : The entity has established healthy association with reputed clients namely Reliance group, Welspun group, Chhabriya Group, Emami group and other domestic clients namely Trio Merchantile & Trading Limited, Millenium Marbles Private Limited (CARE BB/A4, Stable outlook) and continues to receive orders from them.

Comfortable capital structure and moderate debt coverage indicator: SSCL's capital structure stood comfortable in past on account of lower reliance on external debt to fund its business operation coupled with accretion of profits to reserves. Further, the total debt to GCA stood moderately during FY17. Debt coverage indicators marked by total debt /GCA and interest coverage ratio deteriorated marginally on account of reduced profitability.

Analytical approach – Consolidated

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

Applicable Criteria**Criteria on assigning Outlook to Credit Ratings****CARE's Policy on Default Recognition****Criteria for Short Term Instruments****Rating Methodology-Manufacturing Sector****Financial ratios – Non-Financial Sector****About the Company**

Solid Stone Company Limited (SSCL) was initially set up as a private limited company namely Solid Granite Private Limited by Mr. Milan Khakhar, Mr. Prakash Khakhar, Ms. Vasumati Khakhar and Mr. Jeenuo Khakhar in 1990 and was reconstituted as a public limited company in 1994 and got its current name. SSCL is the flagship company of Solid Group with its subsidiaries namely Granitexx UK Ltd (100 % subsidiary of SSCL) and Stone Source GB Ltd (51% owned by Granitexx UK Limited, Step down subsidiary of Solid Stone Company Limited). Solid stone operates a retail store in UK through its subsidiary company Stone Source GB Ltd. Granitexx UK Limited is engaged in trading of natural stones and building materials as well as act as a facilitator to procure natural stones and building materials. These subsidiary companies are London based and it procures orders for SSCL and are in the similar line of business with similar management. SSCL is engaged in the business of processing and trading of pre polished marbles, natural stones, mosaics, marble slabs and semi precious gem stones through its processing unit located at Lalbaug, Mumbai. During FY16, the company generated around 98.02% sales from trading activity and balance 1.98% sale from processing activity. Further it does trading of marbles through its retail outlet namely "STONE SOURCE SELECT" in Mumbai and sells under the brand name of "Stone Source".

SSCL sources 20 mm pre-polished marble primarily from domestic market (constituting 93.97 % of purchases in FY16) and balanced is imported from Portugal, Italy, Turkey and others. SSCL's caters to the high end and reputed customers namely Reliance group, Welspun group, Chhabriya Group, Emami group and other clients namely Trio Merchantile & Trading Limited, Millenium Marbles Private Limited (CARE BB/A4, Stable outlook). It also exports its products to UK, Turkey, US and others (constituted 1.43% of total sales in FY16).

Brief Financials@ (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	60.53	74.00
PBILDT	3.45	4.07
PAT	#0.51	0.83
Overall gearing (times)	0.77	0.86
Interest coverage (times)	1.92	1.90

@Consolidated numbers

A: Audited

#Includes provision for deferred tax asset amounting to Rs.0.18 crore in FY15 and deferred tax liability amounting to Rs.0.42 crore in FY15.

Status of non-cooperation with previous CRA: Not Applicable**Any other information:** Not applicable**Rating History (Last three years):** Please refer Annexure-2

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@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	13.80	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	13.80	CARE BB+; Stable	-	-	-	-

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CIN - L67190MH1993PLC071691