

Solid Stone Company Limited

November 20, 2019

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

Details of instruments/facilities in Annexure I

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Solid Stone Company Limited (SSCL), continues to be constrained by modest scale of operation with moderate profit margins, weak debt coverage indicator, working capital intensive nature of operations and operations in the highly competitive and fragmented industry.

The rating however, continues to derive strength from the long track record of operations and experienced promoters in the marble industry, reputed customer base and comfortable capital structure.

Rating sensitivities

Positive factors

- **Growth in total operating income:** Ability of the group to grow its scale of operation to a level of around Rs. 80 crore on sustained basis
- **Improvement in profit margins:** Ability of group to improve and maintain its operating margin in range of 12-15% and net profit margin in range of 5-10%
- **Improvement in debt coverage indicators:** Ability of the group to maintain interest ratio in range of 2-3x times and total debt /GCA in range of 5-7x times.

Negative factors

- **Deterioration in capital structure:** Ability of the group to maintain its capital structure with gearing level remaining below unity
- **Elongation in collection period:** Ability of the group to improve its collection and maintain between 30 to 45 days

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operation with decline in scale of operation: Group was engaged in trading of stones and primarily catered to corporate customers. However, from January 2018, group changed its focus from wholesale trading business to retail business. However, group continued to operate in wholesale business. Group has earned 60% (vis-à-vis 70% in FY18) of its revenue in FY19 through trading business and 40% in FY19 (vis-à-vis 30% in FY18) from retail segment. Due to the same and lower orders received from its existing customers during FY19, the total operating income declined to Rs.42.37 crore vis-à-vis Rs. 63.49 crore in FY18. Nevertheless, despite the decline in total income comfort can be drawn from the fact that group continues to deal with reputed client base and receives repeated orders from them.

Moderate profit margins however improved in FY19: PBILDT margin of the group improved from 5.89% in FY18 to 8.54% in FY19 on account of higher realization due to change of management's focus to retail segment and higher margins earned from individual players owing to high bargaining power. PAT margin of the group also improved from 0.84% in FY18 to 1.39% in FY19 which improved with improvement in PBILDT margin and lower depreciation expenses in FY19.

Weak debt coverage indicators: Debt coverage indicators continued to remain weak in FY19. However, total debt to GCA improved to 14.45x in FY19 vis-à-vis 17.30x in FY18 on account of increase in gross cash accruals and reduced debt level. However interest coverage deteriorated at 1.62x in FY19 vis-à-vis 1.77x in FY18.

Elongation in working capital cycle thereby operations continued to remain working capital intensive: Group's operations are working capital intensive in nature due to funds blocked in inventory and receivables. High inventory holding period (around 175 days in FY19 vis-à-vis 137 days in FY18) is on account of heterogeneous nature of the product necessitating storage of minimum level of stocks of different types/shades. During FY19 the collection has stretched from 92 days in FY18

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

to 100 days in FY19 in order to maintain relation with its clients in light of intense competition prevalent in the industry. Out of the debtors amounting to Rs.16.52 crore outstanding as on March 31, 2019, debtors amounting to Rs.12.39 crore have been recovered as on November 18, 2019. Further group receives credit period of around one month which resulted in creditors period of 20 days in FY19 vis-à-vis 30 days in FY18. The above has led to higher utilization of the working capital limits (the average utilization of the working capital limit stood at ~95% as on 12 months ended October 2019).

Stretched liquidity position: Liquidity position remained stretched with cash and bank balance remained low at Rs. 0.45 crore as on March 31, 2019 vis-à-vis Rs. 0.44 crore as on March 31, 2018. However current ratio was at 5.02 times, its quick ratio remained at 2.52 times as on March 31, 2019.

Presence in highly competitive marbles industry: The entity operates in a highly competitive industry with limited entry barriers and thereby faces competition from many organized and unorganized players. Due to slowdown in real estate industry and the impacted real estate sector ultimately affected 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 and Ms. Vasumati 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 Flora Marmo Industries Private Limited, Millenium Marbles Private Limited and continues to receive orders from them.

Comfortable capital structure: Group's capital structure continues to remain comfortable on account of high net worth base compared to total debt due to low reliance on external debt coupled with accretion of profits to reserves. The capital structure as reflected by overall gearing which improved marginally to 0.72x as on March 31, 2019 vis-à-vis 0.78x March 31, 2018.

Analytical approach – Consolidated

The following company is considered in the consolidated financial statements:

Name of the company	Country of Incorporation
Global Instile Solid Industries Limited	India

SSCL has other group company, Global Instile Solid Industries Limited (GISIL) which is engaged in the processing of marble which is incorporated in 1997. The group shares a common management. Moreover, GISIL has also given a corporate guarantee to the bank facilities of SSCL. SSCL holds 29% stake and rest 71% is held by promoters of SSCL in GISIL.

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](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

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 Ms. 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 and 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 Palghar. 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 has other group company, Global Instile Solid Industries Limited (GISIL) which is engaged in the processing of marble which is incorporated in 1997. The group shares a common management.

Brief Financials@ (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	63.49	42.37
PBILDT	3.74	3.62
PAT	0.51	0.59
Overall gearing (times)	0.78	0.72
Interest coverage (times)	1.77	1.62

@Consolidated financials

A: Audited

Brief Financials@ (Rs. crore)	FY18 (A)	FY19 (A)	H1FY20 (UA)
Total operating income	61.45	41.37	18.15
PBILDT	3.78	3.66	1.94
PAT	0.59	0.68	0.27
Overall gearing (times)	0.82	0.76	0.72
Interest coverage (times)	1.79	1.68	1.78

@Standalone financials

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating History (Last three years): Please refer Annexure-2

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	13.80	CARE BB+; Stable	-	1)CARE BB+; Stable (05-Sep-18)	1)CARE BB+; Stable (08-Jan-18)	-

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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