Stylam Industries Limited

March 11, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	117.66 (enhanced from Rs. 62.88 crore)	**CARE A-; Stable (A Minus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	101.74 (enhanced from Rs. 90.10 crore)	**CARE A2 (A Two)**	Reaffirmed
Total Facilities	**219.40 (Rupees Two hundred Nineteen crore and Forty lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Stylam Industries Limited (SIL) continue to derive strength from the experienced promoters and management team, long track record of operations and established presence in the export segment. The ratings further derive strength from the increasing scale of operations, comfortable profitability margins and improving overall solvency position.

The ratings are, however, constrained by the working capital intensive nature of operations, fragmented nature of the industry and susceptibility of SIL's profitability margins to fluctuations in the raw material prices and foreign exchange rates.

Going forward, the ability of the company to profitably scale-up its operations and manage the working capital requirements efficiently will remain the key rating sensitivities. Also, the ability of the company to complete the ongoing capex within the projected time and cost estimates and any new capex and funding mix for the same impacting the credit profile will remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations: The company has been in operations since 1991. The operations of the company are currently being managed by Mr Jagdish Gupta who has been associated with the company since its inception. Furthermore, the board has four independent directors supported by team of professionals who handle the day-to-day operations of the company.

Increasing scale of operations with comfortable profitability margins: In FY18, the income of the company increased by ~15% on a year-on-year (y-o-y) basis on the back of higher quantity sold owing to increased orders from existing as-well-as new customers especially in the domestic market. However, the PBILDT margins declined, though continued to remain comfortable at 14.92% in FY18 (PY: 15.89%). The decline was due to the competitive nature of the industry and higher sales achieved from the relatively lower margin giving products.

In 9MFY19 (UA), the company has achieved a total operating income of Rs.336.31 crore with PBILDT margin of 16.85% compared to an operating income of Rs.236.69 crore and PBILDT margin of 14.83% in 9MFY18 (UA). The improvement in income by ~42% during the period was on account of higher quantity sold on account of increased demand from its existing customers and increased sales realization per unit sold on account of the product-mix sold. The improvement in PBILDT margins was on account of economies of scale achieved owing to growing scale of operations and higher sales from the better margin giving products due to change in the product-mix sold. Further, the interest coverage remained comfortable and improved to 7.35x during the period (5.24x; in same period last year).

Comfortable overall solvency position: The capital structure of the company stood comfortable and substantially improved as on March 31, 2018 (on a y-o-y basis) as the company raised fresh equity amounting to Rs.51.08 Cr. (from a private equity investor- Lighthouse Emerging India Investors Limited) in Q1FY18. The same was utilized for pre-payment of the term loans and unsecured loans and to support the working capital requirements. This was further augmented by scheduled repayment of term loans during the year. Furthermore, the debt coverage indicators also remained comfortable with total debt to GCA ratio improving to 3.50x, as on March 31, 2018 which improved from 6.85x as on March 31, 2017 due to improved profitability during the year and lower debt outstanding at the end of the year. The PBILDT interest coverage ratio also improved in FY18 due to decline in interest expenses incurred and improved profitability achieved during the year.

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

The company is currently undertaking a capex at a total project cost of ~Rs.58 cr. for addition of a new production line (at a total cost of Rs. 25 cr.), value addition in the product-mix (hot coating line for improving finishing of the finished goods; at a total cost of Rs. 25 cr.) and for regular/routine capex (remaining Rs.8 Cr.). The project cost is proposed to funded through term loans of Rs.45cr. (already tied-up) and remaining from the internal accruals generated by the company. The additional capacities are expected to come into production by April, 2019 while hot coating line is expected to become operational by July, 2019. Even after completion of the proposed debt funded capex, the solvency position of the company is expected to remain satisfactory. Though the project is in the same line of business, the ability of the company to complete the proposed capex within the projected time and cost estimates will remain a key rating sensitivity. Further, any new capex and funding mix for the same, impacting the credit profile, will also remain a key rating sensitivity.

Key Rating Weaknesses

Vulnerability to foreign exchange: The margins of the company are exposed to foreign exchange fluctuation, as during FY18, the company earned approximately 68% of its total operating income from exports. The company also imports around 53% of its raw material requirements, thus, providing natural hedge to a certain extent. Further, the company has availed some portion of its working capital borrowings in foreign currency and also enters into forward contracts to hedge its forex exposure. However, the complete exposure of the company is not hedged making the margins susceptible to any adverse fluctuation in the foreign exchange prices for the unhedged portion.

Fragmented nature of the industry: The domestic laminates industry is highly fragmented with majority of the sector comprising of unorganised players. Competition from both organised as well as unorganised players leads to pricing pressure for the players in the industry.

Liquidity Position

The operating cycle of the company stood elongated at 99 days, as on March 31, 2018 (PY: 102 days), while the average utilization of the working capital limits also remained high at ~90% for the 12 month period ended January 2019. However, the company has moderate debt repayment obligations of Rs.10.66 cr. and Rs.12.97 Cr. respectively in FY19 and FY20, , which are proposed to be met through the internal accruals [accruals of Rs. 36.34 Cr. in FY18 and Rs.39.08 cr. in 9MFY19 (UA)]. The current and quick ratios improved on a year-on-year basis and stood at 1.08x and 0.62x, respectively, as on March 31, 2018 (Previous Year: 0.85x and 0.44x, respectively).

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
Financial ratios – Non-Financial Sector
CARE's policy on default recognition
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments

Company Background

Stylam Industries Ltd (Stylam) was set up by late Mr NR Aggarwal in 1991 along with his sons, Mr Jagdish Gupta and Mr Satish Gupta, by the name of Golden Laminate Private Limited. It was converted into a Public Limited Company in the year 1992, and was listed on Bombay Stock Exchange in 1995. The company changed its name from Golden Laminates Limited to Stylam Industries Limited in January 2010.

The company is engaged in the manufacturing of decorative laminates under the brand name "STYLAM" and exports its products primarily to European and South East Asian countries. The products of the company find application in furniture and real estate industry. Stylam has its manufacturing units in Panchkula, Haryana, having an installed capacity of 11 million sheets per annum, as on December 31, 2018. The overall management of the company is being looked after by Mr Jagdish Gupta (Managing Director).

SIL has a group concern- Golden ChemTech Limited [GCL; rated, 'CARE BB/ CARE A4' (Credit watch with Developing Implications)] which was engaged in the manufacturing of adhesives till September, 2017. However, the company has discontinued manufacturing of adhesives post Sept-2017 and has installed a new production line at Panchkula (Haryana) to manufacture solid acrylic surface with an installed capacity of 3.20 lakh sheets per annum. The businesses of SIL and GCL are proposed to be amalgamated by April, 2019.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	295.47	340.29
PBILDT	46.95	50.76
PAT	19.64	20.06
Overall gearing (times)	2.41	0.88
Interest coverage (times)	4.69	6.59

A: Audited

Status of non-cooperation with previous CRA: CRISIL has suspended its rating vide press release dated November 11, 2013 on account of non-cooperation by Stylam Industries Limited with CRISIL's efforts to undertake a review of the outstanding ratings.

Any other information: NA

Rating History for 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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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-Term Loan	-	-	November-2024	96.66	CARE A-; Stable
Fund-based - ST-Working Capital Limits	-	-	-	64.00	CARE A2
Fund-based - LT-Cash Credit	-	-	-	21.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	25.10	CARE A2
Fund-based - ST-Standby Line of Credit	-	-	-	12.00	CARE A2
Non-fund-based - ST-Forward Contract	-	-	-	0.64	CARE A2

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	96.66	CARE A-; Stable	1)CARE A-; Stable (06-Apr-18)	1)CARE BBB+; Stable (14-Apr-17)	-	1)CARE BBB+ (16-Mar-16) 2)CARE BBB (13-Apr-15)
2.	Fund-based - LT-Foreign Currency Non Resident Bank Loan	LT	-	-	-	-	-	1)Withdrawn (16-Mar-16) 2)CARE BBB (13-Apr-15)
3.	Fund-based - ST-Working Capital Limits	ST	64.00	CARE A2	1)CARE A2 (06-Apr-18)	1)CARE A3+ (14-Apr-17)	-	1)CARE A3+ (16-Mar-16) 2)CARE A3+ (13-Apr-15)
4.	Fund-based - LT-Cash Credit	LT	21.00	CARE A-; Stable	1)CARE A-; Stable (06-Apr-18)	1)CARE BBB+; Stable (14-Apr-17)	-	1)CARE BBB+ (16-Mar-16) 2)CARE BBB (13-Apr-15)
5.	Non-fund-based - ST-BG/LC	ST	25.10	CARE A2	1)CARE A2 (06-Apr-18)	1)CARE A3+ (14-Apr-17)	-	1)CARE A3+ (16-Mar-16) 2)CARE A3+ (13-Apr-15)
6.	Non-fund-based - ST-Credit Exposure Limit	-	-	-	-	-	-	1)CARE A3+ (16-Mar-16)
7.	Fund-based - ST-Standby Line of Credit	ST	12.00	CARE A2	1)CARE A2 (06-Apr-18)	1)CARE A3+ (14-Apr-17)	-	1)CARE A3+ (16-Mar-16)
8.	Non-fund-based - ST-Forward Contract	ST	0.64	CARE A2	1)CARE A2 (06-Apr-18)	-	-	-

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