Stylam Industries Limited

April 06, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	62.88 (enhanced from Rs. 45.88 crore)	**CARE A-; Stable (A Minus; Outlook: Stable)**	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Short-term Bank Facilities	90.10 (enhanced from Rs. 85.10 crore)	**CARE A2 (A Two)**	Revised from CARE A3+ (A Three Plus)
Total Facilities	**152.98 (Rupees One hundred Fifty Two crore and Ninety Eight lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Stylam Industries Limited (SIL) takes into account the equity infusion in FY18 (refers to the period April 1 to March 31), successful completion of the expansion project and increasing scale of operations. The ratings further derive strength from the experienced promoters and management team, long track record of operations and established presence in the export segment.

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 efficiently manage its working capital requirements and achieve the envisaged sales and profitability from the new project will remain the key rating sensitivities. Furthermore, any new capex and funding mix for the same will also remain a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Equity infusion in FY18: The company had raised fresh equity capital amounting to Rs. 51.08 cr. in May-2017 through preferential allotment of 8.50 lakh shares. The company had utilized the same for pre-payment of term loans and unsecured loans, refurbishment of its commercial project and to support working capital requirements of the company.

Successful completion of the expansion project: The company has increased its installed capacity for manufacturing of laminates at a total cost of Rs. 74.85 cr. at its new manufacturing facility in Panchkula (Haryana). The project cost was funded through a term loan of Rs. 54.12 cr. and remaining through internal cash accruals/unsecured loans. The increased capacities were expected to be operational by Mid-April, 2017. However, due to late arrival of machineries and delay in setting-up of power connection at the new facility, the project achieved COD (Commercial Operations Date) in November-17. However, there was no major cost escalation from the earlier envisaged project cost of Rs.73.50 cr. The increase in cost was borne by the company from its internal accruals. Though the project is in the same line of business, ability of the company to achieve the envisaged sales and profitability will remain a key rating sensitivity.

***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.

Satisfactory financial risk profile: The scale of operations of the company increased by ~18% in FY17 on the back of higher orders from existing as-well-as new customers in both domestic and export market coupled with better sales realization. Furthermore, the profitability margins improved in FY17, on account of various factors including better prices received from export customers, economies of scale owing to growing scale of operations and lower raw material cost incurred.

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

As on March 31, 2017, the capital structure of SIL remained leveraged. However, the debt coverage indicators continued to remain satisfactory with the interest coverage ratio of 4.39x in FY17 (4.73x in FY16) and total debt to GCA of 7.73x as on March 31, 2017 (7.00x as on March 31, 2016). Post equity infusion, the capital structure of the company has improved considerably, with the overall gearing ratio at 1.03x, as on December 31, 2017.
In 9MFY18 (Unaudited), the company has achieved total operating income of Rs.236.69 crore with PBILDT and PAT margins of 14.83% and 5.81%, respectively, compared to an operating income of Rs. 214.70 crore in 9MFY17 (Unaudited) with PBILDT and PAT margins of 15.05%and 6.58%, respectively.

Key Rating Weaknesses
Working capital intensive nature of operations: The operating cycle of the company elongated to 104 days as on March 31, 2017 from 86 days as on March 31, 2016 on account of higher average inventory period. The average utilization of working capital limits remained at high level of ~90% for the last 12 months ended January 2018.

Vulnerability to foreign exchange: The margins of the company are exposed to a significant foreign exchange fluctuation, as during FY17, the company earned approximately 70% of its total operating income from exports. The company also imports around 62% 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.

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 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 9,700,000 sheets per annum, as on December 31, 2017. 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/ 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, for which necessary approvals are awaited from the regulatory authorities.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	250.44	296.27
PBILDT	30.59	43.58
PAT	12.15	18.35
Overall gearing (times)	2.15	2.49
Interest coverage (times)	4.73	4.39

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: Not Applicable

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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About CARE Ratings:

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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-Cash Credit	-	-	-	12.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	March-2023	50.88	CARE A-; Stable
Fund-based - ST-Standby Line of Credit	-	-	-	12.00	CARE A2
Non-fund-based - ST-Forward Contract	-	-	-	5.00	CARE A2
Fund-based - ST-EPC/PSC	-	-	-	48.00	CARE A2
Non-fund-based - ST-BG/LC	-	-	-	25.10	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	50.88	CARE A-; Stable	-	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-EPC/PSC	ST	48.00	CARE A2	-	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	12.00	CARE A-; Stable	-	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 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 A3+ (14-Apr-17)	-	1)CARE A3+ (16-Mar-16)
8.	Non-fund-based - ST-Forward Contract	ST	5.00	CARE A2	-	-	-	-

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CIN - L67190MH1993PLC071691