Stylam Industries Limited

April 06, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Ratings Action**
Long term Bank Facilities	68.35 (reduced from 117.66)	**CARE A-; Stable [Single A Minus; Outlook: Stable]**	**Reaffirmed**
Short term Bank Facilities	92.60 (reduced from 101.74)	**CARE A2 [A Two]**	**Reaffirmed**
Total	**160.95 (Rupees One Hundred Sixty crore and Ninety FIve lakh 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 overall solvency position.

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

Rating Sensitivities

Positive Factors

- Sustained improvement in scale of operations to ~Rs. 600 cr. in the medium term
- Sustained improvement in PBILDT margins to 17-18% in the projected years
- Improvement in overall gearing to below 0.5x in medium term

Negative Factors

- Any major impact of Covid-19 on the operational performance of the company
- PBILDT margin falling significantly to below 10% on sustained basis
- Any major debt funded capex resulting in deterioration of capital structure to above 1.5x
- Increase in gross current asset days to above 150 days

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 (Managing Director) 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 FY19, the income of the company increased at a healthy rate of ~36% 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 in both domestic and export markets coupled with improvement in sales realization per unit sold. In 9MFY20 (UA), the total income of the company increased by ~6% on a y-o-y basis to Rs. 357.63 cr. from Rs. 336.31 cr. in 9MFY19 (UA).

The PBILDT margins of the company remained comfortable and improved to 17.10% in FY19 from 14.92% in FY18 due to economies of scale owing to growing scale of operations. However, the PBILDT margins of the company declined in 9MFY20 (UA) to 15.68% from 16.85% in 9MFY19 on account of increased employee expenses incurred and on account of competitive

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

nature of industry, though continued to remain at a comfortable level. However, going forward any major impact of Covid-19 on the operational performance of the company will remain a key rating sensitivity.

Comfortable overall solvency position: The capital structure of the company continued to remain at a comfortable level as marked by debt to equity and overall gearing ratios of 0.43x and 0.81x, respectively, as on March 31, 2019 (PY: 0.36x and 0.87x, respectively). The debt coverage indicators of the company remained comfortable and improved on a year-on-year basis as marked by total debt to GCA ratio of 2.74x, as on March 31, 2019 (PY: 3.49x) and interest coverage ratio of 7.10x in FY19 (PY: 6.59x) on account of improved profitability during the year. The interest coverage ratio of the company remained comfortable at 8.9x in 9MFY20 which improved from 7.35x in 9MFY19 due to lower interest expenses incurred by the company on account of lower utilization of working capital borrowings.

Key Rating Weaknesses

Elongated operating cycle: The operating cycle of the company stood elongated at 83 days, as on March 31, 2019. However, the same improved from 99 days, as on March 31, 2018, mainly on account of decline in average inventory holding days. The company manufactures various types of laminates with over 1200 designs, textures, colours & finishes and accordingly it has to maintain sufficient inventory of raw materials for smooth production process and also finished goods to meet the immediate demand of the customers, resulting in average inventory period of around 60 days, as on March 31, 2019 (PY: 76 days). Furthermore, the company has to offer reasonable credit period to its customers owing to its presence in highly competitive and fragmented nature of industry which resulted in average collection period of around 52 days, as on March 31, 2019 (PY: 55 days). The raw materials are procured from the local market through an established supplier base (and imports as well) who extend a credit period of around 1.5 months. The average utilization of working capital limits remained at high at ~70% for the last 12 months ended January, 2020.

Vulnerability to foreign exchange fluctuations: The margins of the company are exposed to foreign exchange fluctuation, as during FY19, the company earned approximately 64% of its total operating income from exports. The company also imports around 54% 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: Adequate - SIL's liquidity position has remained adequate as reflected by current ratio of 1.30x, as on March 31, 2019 (PY: 1.08x). The quick ratio of the company stood at 0.82x, as on March 31, 2019 (PY: 0.62x). The company had free cash & bank balance of Rs.1.55 crore as on March 31, 2019 (PY: Rs. 0.31 crore). The average working capital utilization of the company stood at ~70% during the last 12 months ending January-2020. The company is undertaking a capex amounting to ~Rs.58 cr. in FY19-FY21 period for addition of a new production line, value addition in the product-mix (hot coating line for improving finishing of the finished goods), short cycle press & polyester solid surface and for regular/routine capex. The same is being funded through term loans of Rs.45 cr. (already tied-up) and remaining from internal accruals generated by the company. The trial runs for the capex in on-going and it will come into commercial operations by Q1FY21. The company has already incurred the entire cost till March 25, 2020 funded through term loan of Rs. 39.50 cr. and remaining through internal accruals. Further, the company has sold the investment property held with it (book value of Rs. 48.98 cr.) for a consideration of Rs. 34 cr. in Feb-20. The proceeds from the same have been utilized for reduction in long term debt obligations of the company. The company has pre-paid term debt obligations amounting to Rs. 44.06 cr. during the year on account of healthy cash accrual generations from operations and from the proceeds received from the sale of property.

Analytical approach: Standalone.

Applicable Criteria

Criteria on assigning Outlook and credit watch 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

About the Company

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, 2019. 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) ISSUER NOT COOPERATING] 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 have been amalgamated in March, 2020 in an all equity transaction in the ratio of 100 shares of SIL for 371 shares of GCL.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	340.29	462.18
PBILDT	50.76	79.04
PAT	20.06	35.08
Overall gearing (times)	0.87	0.81
Interest coverage (times)	6.59	7.10

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for 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-Term Loan	-	-	March-2025	47.35	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	-	-	-	15.10	CARE A2
Fund-based - ST-Standby Line of Credit	-	-	-	10.00	CARE A2
Non-fund-based - ST-Forward Contract	-	-	-	3.50	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 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-Term Loan	LT	47.35	CARE A-; Stable	-	1)CARE A-; Stable (11-Mar-19) 2)CARE A-; Stable (06-Apr-18)	1)CARE BBB+; Stable (14-Apr-17)	-
2.	Fund-based - ST-Working Capital Limits	ST	64.00	CARE A2	-	1)CARE A2 (11-Mar-19) 2)CARE A2 (06-Apr-18)	1)CARE A3+ (14-Apr-17)	-
3.	Fund-based - LT-Cash Credit	LT	21.00	CARE A-; Stable	-	1)CARE A-; Stable (11-Mar-19) 2)CARE A-; Stable (06-Apr-18)	1)CARE BBB+; Stable (14-Apr-17)	-
4.	Non-fund-based - ST-BG/LC	ST	15.10	CARE A2	-	1)CARE A2 (11-Mar-19) 2)CARE A2 (06-Apr-18)	1)CARE A3+ (14-Apr-17)	-
5.	Fund-based - ST-Standby Line of Credit	ST	10.00	CARE A2	-	1)CARE A2 (11-Mar-19) 2)CARE A2 (06-Apr-18)	1)CARE A3+ (14-Apr-17)	-
6.	Non-fund-based - ST-Forward Contract	ST	3.50	CARE A2	-	1)CARE A2 (11-Mar-19) 2)CARE A2 (06-Apr-18)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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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