Stylam Industries Limited

April 14, 2017

Ratings

Facilities	**Amount (Rs. Crore)**	**Ratings[1]**	**Rating Action**
Long-term Bank Facilities	45.88 (Reduced from Rs. 68.09 crore)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	85.10 (Enhanced from Rs. 64.10 crore)	**CARE A3+ (A Three Plus)**	**Reaffirmed**
Total	**130.98 (Rupees One Hundred Thirty crore and Ninety Eight 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 its experienced promoters and management team, long track record of operations and its established presence in the export segment. The ratings further derive strength from the increasing scale of operations and improving profitability margins along with satisfactory debt coverage indicators. The ratings are, however, constrained by the working capital intensive nature of operations, stabilization and offtake risks associated with the new projects, 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 along with stabilization and offtake for the new projects 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

Experienced and resourceful 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 and Mr Satish Gupta who have been associated with the company since its inception. Mr Manav Gupta (s/o Mr Jagdish Gupta) has recently joined the company. Furthermore, the board has four independent directors supported by team of professionals who handle the day-to-day operations of the company.

Furthermore, the promoters of the company have regularly infused funds in the form of unsecured loans to fund various business requirements of the company. The unsecured loans of the company stood at Rs.19.84 crore, as on September 30, 2016.

Satisfactory financial risk profile: The scale of operations of the company increased by ~17% in FY16 (refers to the period April 1 to March 31) to Rs.250.44 crore from Rs.214.85 crore mainly on account of higher quantity sold owing to increased orders from existing as-well-as new customers in both domestic and export market. Furthermore, the profitability margins improved in FY16 with PBILDT and PAT margins of 12.21% and 4.85%, respectively (PY: 10.68% and 4.37%, respectively), 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.

Though the capital structure of SIL deteriorated with long-term debt to equity ratio (D:E) and overall gearing ratios increasing to 0.91x and 1.73x, respectively, as on March 31, 2016 (PY: 0.59x and 1.49x, respectively), it continued to remain satisfactory. Furthermore, the debt coverage indicators of the company also remained at a satisfactory level with interest coverage ratio of 4.73x and total debt to GCA ratio of 6.54x.

In 9MFY17 (Unaudited), the company has achieved total operating income of Rs.214.70 crore with PBILDT and PAT margins of 15.02% and 6.55%, respectively.

Key Rating Weaknesses

Working capital intensive operations: The operating cycle of the company elongated to ~88 days as on March 31, 2016 from ~79 days as on March 31, 2015 on account of higher average inventory period. The average utilization of working capital limits remained at high level of ~84% for the last 12 months ended December 2016.

Vulnerability to foreign exchange: The margins of the company are exposed to a significant foreign exchange fluctuation, as during FY16, the company earned approximately 72% of its total operating income from exports. The company also imports around 56% of its raw material requirements, thus, providing natural hedge to a certain extent. Furthermore, the company books forward contract from time to time to counter the forex risk. However, since the complete exposure of the company is not hedged, it is exposed to any adverse fluctuation in the foreign exchange prices. In FY16, however, the company derived an additional income of Rs.1.33 crore (Rs.3.57 crore in FY15) from favourable foreign exchange fluctuations.

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. In the export segment however, demand has been buoyant on account of shift from wood based panel products to engineered panels like Medium Density Fibre (MDF) and particle board. India is one of the largest exporters of laminates in the world. Players with established track record of delivering quality products in the export markets, including Stylam have been consistently able to register growth in turnover over the years despite the global slowdown.

Stabilization and offtake risk associated with the new projects: In order to cater to the increased demand from both domestic and export clients, the company has increased its installed capacity by 42 lakh sheets per annum, at a total cost of Rs.73.50 crore. Currently, the trial runs are underway and the entire manufacturing facilities are expected to be operational by mid-April 2017. Though the project is in same line of business, the stabilization risk associated with a new project will remain a key rating sensitivity.
Furthermore, the company has set-up a new Business Process Outsourcing/call centre with total covered area of 149,891 sq. ft., at Panchkula Technology Park, near Chandigarh, at a total project cost of Rs.48.05 crore. The aforementioned capex is into an unrelated area which will eventually lead to new revenue stream with stable income, thereby diversifying company's revenue stream in the near future. However, the company is exposed to offtake risk for the area to be leased.

Comment on Analytical Approach Followed – 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 unit in Panchkula, Haryana, having an installed capacity of 6,400,000 sheets per annum, as on March 31, 2016. The overall management of the company is being looked after by Mr Jagdish Gupta (Managing Director) and Mr Satish Gupta (Executive Director).

During FY16 (refers to the period April 1 to March 31), SIL has reported a PAT of Rs.12.15 crore on a total operating income of Rs.250.44 crore as against a PAT of Rs.9.39 crore on a total operating income of Rs.214.85 crore in FY15. During 9MFY17 (Unaudited), SIL has achieved a total operating income of Rs.214.70 crore with PBILDT margins of 15.02%.

Status of non-cooperation with previous CRA: Applicable. 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 (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:

CARE Ratings commenced operations in April 1993 and over nearly two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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-2023	33.88	CARE BBB+; Stable
Fund-based - ST-EPC/PSC	-	-	-	48.00	CARE A3+
Fund-based - LT-Cash Credit	-	-	-	12.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	25.10	CARE A3+
Fund-based - ST-Standby Line of Credit	-	-	-	12.00	CARE A3+

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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	33.88	CARE BBB+; Stable	-	1)CARE BBB+ (16-Mar-16) 2)CARE BBB (13-Apr-15)	1)CARE BBB- (16-Apr-14)	1)CARE BBB- (30-Apr-13)
2.	Fund-based - LT-Foreign Currency Non Resident Bank Loan	LT	-	-	-	1)Withdrawn (16-Mar-16) 2)CARE BBB (13-Apr-15)	1)CARE BBB- (16-Apr-14)	1)CARE BBB- (30-Apr-13)
3.	Fund-based - ST-EPC/PSC	ST	48.00	CARE A3+	-	1)CARE A3+ (16-Mar-16) 2)CARE A3+ (13-Apr-15)	1)CARE A3 (16-Apr-14)	1)CARE A3 (30-Apr-13)
4.	Fund-based - LT-Cash Credit	LT	12.00	CARE BBB+; Stable	-	1)CARE BBB+ (16-Mar-16) 2)CARE BBB (13-Apr-15)	1)CARE BBB- (16-Apr-14)	1)CARE BBB- (30-Apr-13)
5.	Non-fund-based - ST-BG/LC	ST	25.10	CARE A3+	-	1)CARE A3+ (16-Mar-16) 2)CARE A3+ (13-Apr-15)	1)CARE A3 (16-Apr-14)	1)CARE A3 (30-Apr-13)
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 A3+	-	1)CARE A3+ (16-Mar-16)	-	-

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