Stone Sapphire (India) Private Limited
March 22, 2024

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long term Bank Facilities	99.20	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Short term Bank Facilities	21.00	IVR A3 (IVR A Three)	Assigned	Simple
Total	**120.20 (One Hundred Twenty Crore and Twenty Lakhs Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Stone Sapphire (India) Pvt Ltd (SSIPL) derive strength from extensive experience of its promoters with strong management team, established market presence of the company with diversified product portfolio and its strong brand name. Moreover, the ratings also consider healthy growth in revenue and profitability of the company over the past three fiscal years. However, these rating strengths remain constrained due to SSIPL's moderate capital structure, exposure to intense competition and vulnerability of profit margin to cost inflationary pressures. Moreover, rising popularity of online gaming and rapid digitalization may restrict the growth opportunity in stationery segment.

Key Rating Sensitivities:

Upward Factors

- Sustained improvement in revenue and/or profitability leading to improvement in debt protection metrics.
- Improvement in the capital structure with improvement in overall gearing ratio to below 1.5x.
- Improvement in working capital requirement leading to improvement in liquidity.

Downward Factors

- Any decline in revenue and/or profitability leading to deterioration in debt protection metrics.
- Moderation in the capital structure with deterioration in overall gearing to over 3x.
- Elongation in operating cycle leading to deterioration in liquidity profile of the company.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of promoters and strong management team**
  The promoters of the company have experience of over decades in the industry and have a strong understanding of the market dynamics which has helped them to establish good business relationships. Moreover, the company is well supported by a second line of management. The extensive experience of the promoters supports the business risk profile of the company to an extent.
- **Established market presence with diversified product portfolio and strong brand name.**
  SSIPL is engaged in the business of toys, stationery and homeware. The company launched its own brand for children stationery & related school supplies segment named 'Skoodle'. In the homeware segment, the Company is into distribution of reputed USA based Homeware Brand – Corelle (the company acquired the distribution rights in January 2022). The company is now the exclusive national importer and distributor for Corelle, Corning ware, visions, Pyrex and Snap ware. The company currently offers more than 500 + SKU across children art and craft, stationery, toys, and homeware segments which are being sold across more than 50,000 doors vide a Pan-India distribution network managed through 250+ member strong sales force.
- **Healthy growth in revenues and profitability**
  The total operating income (TOI) of the company witnessed healthy growth over the past three fiscals from Rs.43.07 crore in FY21 to Rs.144.42 crore in FY23 driven by sustained improvement in sales volume attributable to favourable market demand and introduction of Homeware segment from January 2022. The homeware segment contributed one third of the total revenue in FY23. With the increase in TOI, EBITDA margin increased from 11.85% in FY 22 to 14.96% in FY23. The increase in EBITDA margin is mainly due to an increase in the scale of operations resulting in better absorption of fixed overheads

coupled with a rise in sales from the Homeware segment, which is a high margin segment. PAT margin also increased from 3.83% in FY22 to 5.81% in FY23. On the back of a rise in profitability, the gross cash accruals of the company also improved from Rs. 3.56 crore in FY22 to Rs.13.41 crore in FY23. Further, during 10MFY24 the company achieved a revenue of ~Rs.161 crore.

Key Rating Weaknesses

- **Moderate capital structure**

  The capital structure of the company remained moderate with long term debt equity ratio and overall gearing ratio at 0.38x and 2.28x respectively as on March 31,2023. Further, total indebtedness of the company marked by TOL/ATNW also stood moderate at 2.97x as on March 31,2023. The company has a moderate net worth base of Rs.38.51 crore as on March 31, 2023, including the subordinated unsecured loans from promoters/directors aggregating to Rs.12.29 crore. However, the debt coverage indicators stood comfortable with ICR of 3.23x in FY2023 (2.38x in FY2022). With increase in EBITDA, Total debt/EBITDA and Total debt to GCA also improved to 4.35x (7.56x as on March 31,2022) and 7.01 years respectively as on March 31,2023 (13.36 years as on March 31,2022).

- **Margins vulnerable to cost inflationary pressures.**

  Prices for raw materials, which make up a significant amount of production costs, have a significant impact on the cost of production and profit margin in the stationery business. In recent years, there has been volatility in the prices of essential materials, including plastic, paper, and pigments. Furthermore, because of rivalry, the business might not be able to fully pass on the price rise for raw materials to customers.

- **Rapid digitalization may restrict the growth opportunity of stationery segment.**

  Rapid digitalization is one of the prominent restricting factors, which is predicted to limit expansion opportunities in the target industry. Green schooling and smart classes are limiting the consumption of stationery products and thus having adverse impact on market growth.

- **Exposure to intense competition and rising popularity of online gaming**

  The business of the company is exposed to intense competition due to the extremely fragmented nature of Indian stationery market. The market is highly fragmented attributable to presence of large number of unorganized businesses in the lower end of the product segments, which includes adhesives, pens, and pencils coupled with presence of few established brands. In the pens area, where the SSIPL has less visibility, competition is far fiercer. Further, online games are widely popular among kids, as they can be played on smartphones and tablets without the need of an additional play kit. This will likely pose challenges to the growth of the video console kit maker's businesses, thereby hampering the toy industry growth.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies.]

[Financial Ratios & Interpretation (Non- Financial Sector)]

[Criteria of assigning rating outlook]

[Policy on default recognition]

[Criteria on complexity.]

Liquidity – Adequate

The liquidity profile of the company is expected to remain adequate marked by its expected sufficient cash accruals vis-à-vis its debt repayment obligation of Rs.2.28 crore in FY2024, Rs.3.34 crore in FY2025 and Rs.2.76 crore in FY2026 respectively. Further, resourcefulness of the promoters and growing demand of its products also supports the liquidity profile of the company to an extent. However, the average working capital utilisation remained high at ~93% for the last twelve months ended January 2024 indicating a limited cushion.

About the Company

Stone Sapphire (India) Private Limited (SSIPL) was incorporated in 2007 by Mr. Vikram Rana and his family members and has its registered office located in Vadodara, Gujarat. SSIPL started its operations in 2018. SSIPL is engaged in three segments namely Stationery, Toy, and Homewares. The company operates on OEM manufacturing model for stationery and toys segment. Besides, the Company is also into distribution of Homeware Brands (Corelle, Corning ware, visions, Pyrex and Snap ware).

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	52.99	144.42
EBITDA	6.28	21.60

For the year ended* / As On	31-03-2022	31-03-2023
PAT	2.04	8.40
Total Debt	47.52	93.93
Tangible Net worth	15.61	26.22
EBITDA Margin (%)	11.85	14.96
PAT Margin (%)	3.83	5.81
Overall Gearing Ratio (x)	1.51	2.28
Interest coverage Ratio	2.38	3.23

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding. (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	LT	34.20*	IVR BBB-/Stable	-	-	-
2.	Cash Credit	LT	65.00	IVR BBB-/Stable	-	-	-
3.	Overdraft	ST	21.00	IVR A3	-	-	-

**Outstanding as on December 31, 2023.*

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	June 2025	5.46*	IVR BBB-/Stable
Term Loan	-	-	January 2031	7.50*	IVR BBB-/Stable
Term Loan	-	-	November 2031	21.24*	IVR BBB-/Stable
Cash Credit	-	-	-	65.00	IVR BBB-/Stable
Overdraft	-	-	-	21.00	IVR A3

**Outstanding as on December 31, 2023.*

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-SSIPL-mar24.pdf

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at https://www.infomerics.com.