



Press Release

Capron Vitrified Private Limited

January 30, 2021

Ratings

Sl. No.	Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	21.32	IVR BB; Stable (IVR Double B with Stable Outlook)	Assigned
2	Short Term Bank Facilities	3.00	IVR A4 (IVR A Four)	Assigned
	Total	24.32 (Rs. Twenty-Four crore and Thirty-Two lakh only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Capron Vitrified Private Limited (CVPL) derives comfort from its experienced promoter, synergy benefits from sister concerns and continuous increase in turnover coupled with adequate demand. The ratings also note its proximity to raw material sources by virtue of the company's presence in the ceramic hub-Morbi (Gujarat). These rating strengths are partially offset by its small scale of operation, susceptibility of profit margin to volatility in input prices, presence in a highly competitive market with dependence real estate sector, moderate financial risk profile and working capital intensive nature of its operation.

Rating Sensitivities

Upward factors

- More than expected growth in scale of business with improvement in profitability metrics thereby leading to improvement in cash accruals and debt protection metrics on a sustained basis.
- Maintenance of capital structure with overall gearing of less than 1.50x with improvement in debt protection metrics
- Improvement in working capital cycle leading to improvement in liquidity

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators on a sustained basis and subdued industry scenario



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- Deterioration in working capital management impacting the liquidity and moderation in overall gearing to more than 2.50 times.

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoter**

The promoters have over two decades of experience in the respective industry. Mr. Mitul Karamshi Panara (Director) is at the helm of affairs of the company with support from other five directors and a team of experienced professionals.

- **Location advantage**

The manufacturing facilities of CVPL are located at Morbi in Gujarat, which is the largest ceramic cluster in India. Easy availability of raw material and easy availability of skilled manpower are the key advantages in the area. Clay and glaze frit is easily available from Gujarat and nearby states and liquefied natural gas for firing of kilns is supplied by a State PSU Gas company of Gujarat. This apart, the vicinity to the major ports like Kandla and Mundra also lowers the transportation cost and thus helps the exporters of vitrified tiles from the region.

- **Synergy benefits from sister concerns**

The promoters of CVPL have vast experience in the vitrified tiles industry through their association with other sister concerns. CVPL has an advantage of established marketing and distribution network of these associate firms which is spread across the domestic market and countries like Nepal and Bhutan.

- **Continuous increase in turnover coupled with adequate demand**

TOI has been increasing at a CAGR of ~45% during last three financial year ending on FY20 on the back of increase in demand coupled with tapping of newer market abroad and increase in merchant export.

Key Rating Weaknesses

- **Small scale of operation**

Total operating income (TOI) of the company remained small at ~Rs.65 crore in FY20 and Tangible Net Worth of the company was Rs.11.54 crore. Small scale of operation restricts



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the financial flexibility of the company to an extent. During 9MFY21, the company earned a revenue of ~Rs.41 crore. Infomerics expects that the scale of operations of the company will continue to remain small in the near term.

- **Susceptibility of profit margin to volatility in input prices**

For vitrified and ceramic tiles industry, clay and natural gas as fuel is the major raw materials and constitute a large part of the cost structure. As the price of clay and natural gas is market driven, inability of the company to pass on the same to its customers may exert pressure on profitability of the company.

- **Highly competitive market with dependence real estate sector**

Ceramic and vitrified tiles industry is highly competitive due to facts like low entry barriers, easy availability of raw materials and limited initial capital investment which leads to large inclusion of regional and unorganized players. However, CVPL faces stiff competition from established players in the organised market. This apart, CVPL's sales and profitability remain vulnerable to demand from the cyclical real estate sector. Moreover, due to economic slowdown, replacement demand has also seen a negative trend in recent past.

- **Moderate financial risk profile**

Financial risk profile of the company is moderate in nature where the capital structure is leveraged marked by overall gearing ratio of 2.36x as on March 31, 2020. This apart, interest coverage ratio was adequate at 2.99x and total debt to GCA was relatively high at 5.88x during FY20 and TOL/TNW was at 3.89x as on March 31, 2020. The credit risk profile of the company appears to be moderate due to sizable near term debt repayment obligations as compared to its cash accruals.

- **Working capital intensive nature of operation**

The operation of the company is working capital intensive due to its high inventory period as the company stocks raw material to avoid price fluctuation risk and regular production throughout the year. Further, the average receivables period of the company also remained elongated with presence of high more than six months outstanding debtors. The said debtors are primarily of sister concerns who are involved in trading and receivables are recovered regularly as per internal arrangements. In FY20, operating cycle was remained elongated to



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78 days. The average utilisation of fund based working capital limits stood high at ~98% during the trailing 12 months ended December, 2020.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial sector)

Liquidity: Stretched

The liquidity position of the company appears to be stretched due to its working capital intensive nature of operations marked by its stretched receivable and consequent high utilisation of bank borrowings at ~98% during the past 12 months ended December 2020 indicating a limited liquidity buffer. However, CVPL has earned gross cash accruals of Rs.4.62 crore in FY20 and is expected to earn gross cash accruals around ~Rs.4 crore as against debt repayment obligation around ~Rs.3 crore during FY21-23.

About the Company

Capron Vitrified Private Limited (CVPL) was incorporated in June 2016 to initiate a vitrified tile manufacturing business. CVPL manufactures vitrified tiles in various size and design. It has manufacturing facility at Morbi, Gujarat, with an install capacity of 58,500 MTPA and sells its products under the brand name of “Capron”. CVPL has other four sister concern engaged in similar line of business. CVPL has its own selling arrangements and sells in domestic market as well as exports to the countries like Nepal and Bhutan.

Currently, Mr. Mitul Karamshi Panara is at the helm of affairs of the company along other five directors and a team of experienced personnel.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	61.94	64.73
EBITDA	7.83	7.18
PAT	0.50	0.82
Total Debt	30.85	27.19
Tangible Net worth	10.72	11.54



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EBITDA Margin (%)	12.64	11.09
PAT Margin (%)	0.80	1.27
Overall Gearing Ratio (x)	2.88	2.36

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1	Term Loan	Long Term	11.32	IVR BB / Stable	-	-	-
2	Cash Credit	Long Term	10.00	IVR BB / Stable	-	-	-
3	BG	Short Term	3.00	IVR A4	-	-	-

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 www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Mr. Sanmoy Lahiri Tel: (033) 46022266 Email: slahiri@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com
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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.



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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
Long Term Fund Based Limits – Term Loan	-	-	May 2024	11.32	IVR BB/Stable
Long Term Fund Based Limits - Cash Credit	-	-	-	10.00	IVR BB/Stable
Short Term Non-Fund Based Limits – BG	-	-	-	3.00	IVR A4