

Lexus Granito (India) Limited

June 15, 2018

Summary of Rated Instrument:

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loans	42.18	42.18	[ICRA]BB- (Negative); Downgraded from [ICRA]BB+ (Stable)
Fund-based – Cash Credit	22.00	22.00	[ICRA]BB- (Negative); Downgraded from [ICRA]BB+ (Stable)
Fund-based – EPC/FBD [#]	(17.00)	(17.00)	[ICRA]A4; Downgraded from [ICRA]A4+
Non-fund based – Bank Guarantee	4.70	4.70	[ICRA]A4; Downgraded from [ICRA]A4+
Non-fund based – Credit Exposure Limit [#]	(0.75)	(0.75)	[ICRA]A4; Downgraded from [ICRA]A4+
Non-convertible Debentures (NCD)*	6.40	6.40	[ICRA]BB- (Negative); Downgraded from [ICRA]BB+ (Stable)
Proposed Non-convertible Debentures (NCD)	8.60	8.60	[ICRA]BB- (Negative); Downgraded from [ICRA]BB+ (Stable)
Total	83.88	83.88	

[#]Sublimit within Cash Credit

*Placed under review due to non-confirmation on ISIN Status

Material Event

Lexus Granito (India) Limited's half yearly results received on June 13, 2018. The company reported operating income of Rs. 88.85 crore with operating profit (OPBDITA) of Rs. 16.25 crore and profit after tax (PAT) of Rs. 2.70 crore in H2 FY2018. Further, the company reported operating income of Rs. 181.17 crore with operating profit (OPBDITA) of Rs. 30.66 crore and profit after tax (PAT) of Rs. 7.00 crore in FY2018.

Impact of the Material Event

ICRA has revised the long-term rating to [ICRA]BB- (pronounced ICRA double B minus) from [ICRA]BB+ (pronounced ICRA double B plus) to the Rs. 42.18-crore¹ term loans and the Rs. 22.00-crore cash credit facility of Lexus Granito (India) Limited (LGL or the company)². ICRA has also revised the short term rating to [ICRA]A4 (pronounced ICRA A four) from [ICRA]A4+ (pronounced ICRA A four plus) to the Rs. 17.00-crore fund-based EPC/FBD (sublimit within cash credit), the Rs. 4.70-crore non-fund based bank guarantee and the Rs. 0.75-crore non-fund based credit exposure limit (sublimit within cash credit) of LGL. ICRA has revised the long-term rating to [ICRA]BB- (pronounced ICRA double B minus) from [ICRA]BB+ (pronounced ICRA double B plus) for the Rs. 15.00-crore non-convertible debentures of LGL. The outlook on the long term rating is revised to 'Negative' from 'Stable'. Further, ICRA has placed the rating of Lexus Granito (India) Limited under review due

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

to non receipt of information from the rated entity and Debenture Trustee [“DT”] regarding timely servicing of non-convertible debentures.

The ratings revision reflects the stretched liquidity position of the company, on account of delayed payments from customers leading to elongated receivables as well as significant increase in inventory levels. Further the, pressure on liquidity is evident from the almost full utilisation of working capital limits in the past six months and incremental working capital requirement being funded by stretching the creditors.

The previous detailed rating rationale is available on the following link: [Click here](#)

Rationale

The ratings downgrade takes into account stretched liquidity position of the company, on account of delayed payments from customers leading to elongated receivables as well as significant increase in inventory levels. Moreover, the pressure on liquidity is evident from the almost full utilisation of working capital limits in the recent past and incremental working capital requirement being funded by stretching the creditors. The ratings also take into account the average financial risk profile marked by moderate debt coverage indicators and high working capital intensity of operations. Further, the cyclical nature of the real estate industry, which is the main end-user sector, intense competition and the exposure of the company’s profitability to volatility in raw material and natural gas prices are other credit concerns.

The ratings derive comfort from the extensive experience of promoters in the ceramic tile industry, established presence in the domestic and international markets and its proximity, which ensures easy availability of raw materials.

ICRA in accordance with SEBI Circular on ‘Monitoring and Review of Ratings by Credit Rating Agencies (CRAs)’, dated June 30, 2017 has sought confirmation from Lexus Granito (India) Limited on debt servicing for the instruments detailed below, however has not received any response as yet:

Instrument details:

ISIN No	Type of Instrument	Date of Issuance	Size of the issue (Rs. Cr)	Coupon Rate	Maturity Date	Interest Payment due date	Principal Payment due date	Rating Outstanding (along with outlook / Watch if any)
INE500X07010	Non Convertible Debentures*	April 07, 2017	6.40	13.05% p.a. (Fixed)	June 12, 2020	June 12, 2018	April 08, 2020 June 12, 2020	[ICRA]BB- (Negative); Downgraded from [ICRA]BB+ (Stable)

* Placed under review due to non-confirmation on ISIN Status

ICRA is monitoring the rating for material developments and would come out with a rating action if required and disclose the same via Press release on its website.

Outlook: Negative

The outlook may be revised to 'Stable' if ramp up in operations and improvement in working capital cycle strengthens business risk profile along with sustenance of its operating margins and generation of sufficient cash accruals. The rating may be downgraded further if substantially low accrual, stretched working capital cycle, or any large capital expenditure weakens financial risk profile, particularly liquidity.

Key rating drivers

Credit strengths

Experience of promoters – Incorporated in 2010, LGPL was managed by key promoters, Mr. Babulal Detoraj, Me. Anil Detroja, Mr. Nilesh Detroja and Mr. Hitesh Detorja. The key promoters, have more than a decade of experience in the ceramic industry via their association with group entities engaged in the ceramic tiles business.

Favourable location of raw material and wide range of products – Company’s manufacturing facility is located in Morbi, Gujarat which ensures easy availability of raw material. The company manufactures vitrified tiles and wall tiles and supplies the same in various sizes, designs and specifications for catering to the special needs of the clients.

Credit weaknesses

High working capital intensity and stretch in liquidity position – LGPL’s working capital intensity has remained high in the past and it for FY2018 as reflected by NWC/OI of ~31% in FY2018 (~23% in FY2017), because of delayed payments from customers leading to elongated receivables as well as significant increase in inventory levels. Moreover, the pressure on liquidity is evident from the almost full utilisation of working capital limits in the recent past and incremental working capital requirement being funded by stretching the creditors.

Moderate capital structure and debt coverage indicators – The capital structure remained moderate as reflected in gearing of 0.88 times as on March 31, 2018, which improved from 2.14 times as on March 31, 2017 on account of infusion of equity raised through public issue offering (IPO) in August 2017 for Rs. 25.92 crore in aggregate. The coverage indicators stood above average, with an interest coverage of 3.42 times and TD/OPBDITA of 1.97 times for FY2018.

Competitive business environment – The Company operates in a competitive business environment with the presence of organised players as well as unorganised tile manufacturers.

Vulnerability of profitability to any adverse fluctuations in raw material and coal prices – The margins of the company are largely affected by the raw material price and coal prices fluctuation. Any adverse movement in the prices of raw materials and fuel could have an adverse impact on the company’s margins, considering the limited ability to pass on the price hike owing to high competitive intensity. The price fluctuations also impact the realisations of the company.

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