

November 19, 2021

Acrysil Steel Limited: Ratings upgraded to [ICRA]A-(CE) (Stable)/[ICRA]A2+ (CE); rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund-based Cash Credit	4.25	4.25	[ICRA]A-(CE)(Stable) Upgraded from [ICRA]BBB+(CE) (Stable)
Fund-based Term Loan	3.81	12.48	[ICRA]A-(CE)(Stable) Upgraded from [ICRA]BBB+(CE) (Stable)
Non-fund-based Letter of Credit	2.25	0.60	[ICRA]A2+(CE) Upgraded from [ICRA]A2(CE)
Unallocated Limits	0.03	0.00	-
Total	10.34	17.33	
Rating Without Explicit Credit Enhancement			[ICRA]BBB+/[ICRA]A2

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade takes into account, the improvement of the credit profile of the guarantor (Acrysil Limited)¹, given the ratings are based on the strength of the corporate guarantee provided by Acrysil Limited (AL), the parent of Acrysil Steel Limited (ASL), for the rated bank lines. The Stable outlook on this rating reflects ICRA's outlook on the rating of guarantor.

Adequacy of credit enhancement

The rating is based on the guarantee which is legally enforceable, joint and several, irrevocable, unconditional and covers the entire amount and tenure of the rated instrument. Nevertheless, the guarantee is devoid of any defined invocation and payment mechanism. Given these attributes, the guarantee provided by Acrysil Limited is adequately strong to result in an enhancement in the rating of the said instrument to **[ICRA]A-(CE)/A2+(CE)** against the rating of [ICRA]BBB+/A2 without explicit credit enhancement. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

For detailed rating rationale of Acrysil Limited: [Click here](#)

Salient covenants of the rated facilities – For Rs. 17.33 crore bank facilities

- » *The limit is to be utilised for working capital and purchase of plant and machinery*
- » *Promoter's contribution towards the project should be brought upfront*
- » *Bank's disbursement for each tranche to be made directly to the project vendor on the written request of borrower*
- » *The company must infuse term loan margin by way of capital/ unsecured loans*

¹ Acrysil Limited long-term rating has been upgraded to [ICRA]A(Stable) & short term rating reaffirmed at [ICRA]A2+

Key rating drivers and their description

Credit strengths

Strong parentage and experience of the promoters in kitchen sink industry – ASL is a subsidiary of AL, which is the leading manufacturer of granite-based kitchen sinks (also known as ‘Composite Quartz Sinks’) in India and, hence, benefits from the established brand name of AL. The company, apart from receiving operational and financial support from its parent, also enjoys established relationships with suppliers as well as dealers and distributors. Further, the promoters have more than three decades of experience in the kitchen sink industry as the parent, AL, was incorporated in 1987.

Corporate guarantee from parent - ASL’s credit profile is enhanced by the corporate guarantee provided by AL for the above-rated bank limits.

Comfortable gearing and debt coverage indicators - The gearing of the company was comfortable, at 0.4 time in FY2021. Moreover, the debt coverage indicators were above average, with interest coverage at 5.4 times, NCA/Total Debt at 36% and DSCR at 2.7 times in FY2021.

Credit challenges

Modest scale of operations and high working capital intensive business– The company’ scale continues to be modest, with an operating income at Rs. 23.6 crore in FY2021. The working capital intensity remained high at 28% as on March 31, 2021, mainly due to the high inventory and receivable days, to support which the creditors also remained stretched.

Exposure to intense competition – The presence of both large and organised players as well as numerous small-scale manufacturers, coupled with low-entry barriers in the kitchen sink industry, stiffens the competition. Nevertheless, comfort can be drawn from the strong brand presence, the established distribution network of the parent company and the higher focus on Quadro sinks, which are relatively high value-added products with limited competition.

Exposure of margin to volatility in raw material prices – ASL’s profitability continues to be vulnerable to any price increase of the key raw material, stainless steel.

Liquidity position

Acrysil Limited (Guarantor): Adequate

The liquidity position of AL is adequate, since its cash accruals are expected to remain more than adequate to cover the debt repayments in the near to medium term. The company had an unencumbered cash balance (Rs. 18.4 crore as on March 31, 2021 and Rs. 12.5 crore as on September 2021 on a consolidated basis) and unutilised limits of Rs. 6.2 crore as of September 2021 end. Further, the company has already tied up for debt for the capex to be undertaken in the near term, which will further support its liquidity.

Acrysil Steel Limited: Adequate

The liquidity position of ASL is adequate, given the expected cash accruals vis-à-vis the repayments as well as the undrawn working capital limit (average utilisation of the working capital limit was 83% for the 12-month period ended on September 2021).

Rating sensitivities

Positive factors- ICRA could upgrade ASL’s rating if there is an improvement in guarantor’s credit profile or significant scale up of operations coupled with improvement in margins, leading to improvement in financial risk profile.

Negative factors- Negative pressure on ASL’s rating could arise if there is a weakening in the guarantor’s credit profile. Further, cessation of support or weakening of linkages from the parent group may also lead to negative pressure on ratings. Furthermore, significant decline in scale and profitability leading to decline in cash accruals and overall weakening of the financial risk profile or significant stretch in working capital cycle may lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Support from parent – Acrysil Limited Explicit support in the form of corporate guarantee for the rated bank lines.
Consolidation/Standalone	The ratings are based on the standalone financials of Acrysil Steel Limited.

About the company

Acrysil Steel Limited (ASL) is a subsidiary of Acrysil Limited (AL) and manufactures stainless steel kitchen sinks. Almost ~85% its equity shares is owned by AL, and the rest by the directors and promoters of AL. ASL’s plant in Bhavnagar, Gujarat, has an installed manufacturing capacity of 60,000 kitchen sinks, using the traditional pressing line, and a capacity for 51,600 kitchen sinks using the fabrication line.

Key financial indicators- Standalone

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	21.5	23.6
PAT (Rs. crore)	1.2	1.3
OPBDIT/OI (%)	13.8%	14.6%
PAT/OI (%)	5.5%	5.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9
Total Debt/OPBDIT (times)	2.3	2.0
Interest Coverage (times)	4.7	5.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				Nov 19, 2021	Sep 09, 2020	Sep 10, 2019	July 04, 2018	
1 Cash Credit	Long Term	4.25	-	[ICRA]A- (CE) (Stable)	[ICRA]BBB+ (CE) (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
2 Term Loan	Long Term	12.48	3.0	[ICRA]A- (CE) (Stable)	[ICRA]BBB+ (CE) (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
3 Letter of Credit	Long Term	0.60	-	[ICRA]A2+ (CE)	[ICRA]A2 (CE)	[ICRA]A3	[ICRA]A3	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
Letter of Credit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	4.25	[ICRA]A- (CE) (Stable)
NA	Term Loan	FY2018	NA	FY2027	12.48	[ICRA]A- (CE) (Stable)
NA	Letter of Credit	NA	NA	NA	0.60	[ICRA]A2+ (CE)

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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