September 09, 2020

Acrysil Limited: Ratings upgraded to [ICRA]A- (Stable)/[ICRA]A2+; outlook revised to stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit/Working capital limits	72.00	72.00	[ICRA]A-(Stable); Upgraded from [ICRA]BBB+(Positive)
Fund-based Interchangeable Limits	-	(72.00)#	[ICRA]A-(Stable); Upgraded from [ICRA]BBB+(Positive)
Fund-based Term Loan	22.92	20.62	[ICRA]A-(Stable); Upgraded from [ICRA]BBB+(Positive)
Non-fund based Letter of credit	10.00	10.00	[ICRA]A2+; Upgraded from [ICRA]A2
Non-fund based Interchangeable Limits	-	(10.00)#	[ICRA]A2+; Upgraded from [ICRA]A2
Unallocated Limits	0.08	2.38	[ICRA]A-(Stable); Upgraded from [ICRA]BBB+(Positive)
Total	**105.00**	**105.00**	

#Sublimit of HDFC Bank Cash Credit facility is Working Capital Demand Loan (WCDL) and Export Credit and of LC it is buyers credit and bank guarantee, of Citi Bank working capital limits is export finance, WCDL and bank guarantee and of Kotak bank is FBD/FBN/FBP, EPC/PCFC, Cash Credit, WCDL, LC, Buyers Credit.

*Instrument details are provided in Annexure-1

Rationale

The upgrade in ratings takes into account the steady growth in scale of operation over the past three years on the back of deeper penetration in the export markets and the consistent improvement in the debt coverage metrics. The ratings further factor in the healthy return indicators, the comfortable capital structure and the adequate liquidity position. Further, the ratings continue to favourably factor in the extensive experience of the promoters and the established position of the Group in the kitchen sink industry, along with the diversified product portfolio and the reputed clientele.

The ratings, however, are constrained by the working capital-intensive business due to the high inventory holding period and the relatively long collection cycle apart from the vulnerability of profitability to raw material prices. Further, in the export markets, the company faces competition from other established players, though it is favourably placed in terms of cost efficiency as the manufacturing operations are based in India. Further, as 70% revenue comes from exports, the company’s profitability remains vulnerable to adverse forex movements, although the risk is partially mitigated by natural hedge in terms of imports. ICRA also notes that though the Covid-19 pandemic eroded the sales in Q1FY21 in terms of topline, the margin posted an increase because of the cost optimisation efforts. It is also to be noted that the capacity utilisation has been on an upswing and remained in the range of 80-85% in Q2FY21.

The Stable outlook on the [ICRA]A- rating reflects ICRA’s opinion that Acrysil Limited (AL) will continue to maintain its business positioning in the granite-based kitchen sink industry.

Key rating drivers

Credit strengths

Extensive experience of promoters and established presence of Group in kitchen sink industry – Acrysil Limited was incorporated in 1987 and is the leading manufacturer of granite-based kitchen sink in India, also known as 'Composite Quartz Sink'. Its promoters have over three-decade experience in the kitchen sink industry (both granite sinks and steel sinks). Thus, the promoters' long experience in the industry apart from established relationship with suppliers and customers are expected to support the business profile.

Steady revenue growth; healthy return indicators and debt coverage indicators; and comfortable capital structure - The Group's operating income (consolidated) grew at a healthy CAGR of 10% to Rs. 276.23 crore in FY2020 from Rs. 171.91 crore in FY2016 due to deeper penetration in the export market. In Q1FY2021, the company achieved sales of Rs. 45.98 crores on consolidated basis. ICRA expects AL to continue its growth trajectory, supported by recent agreement with reputed clientele such as IKEA and GROHE and the floating of the new subsidiary in the US. The operating margins in the last two fiscals have remained stable, in the range of 17%, and have improved to 21.17% in Q1FY2021 (consolidated) due to cost optimisation measures, though for FY2021 it is likely to remain at sub 18% levels. Consequently, the return indicators stood healthy, as reflected by ROCE of 16.83% in FY2020. The capital structure remained comfortable, with a gearing at 0.63 times in FY2020 (consolidated). The debt coverage indicators have shown sustained improvement, with an interest coverage at 4.79 times, Total debt/OPBDITA at 2.10 times, NCA/Total Debt at 31% and DSCR at 2.02 times in FY2020 compared to interest coverage at 3.65 times, Total debt/OPBDITA at 2.28 times, NCA/Total Debt at 24% and DSCR at 1.71 times in FY2019.

Diversified product portfolio - The Group has diversified into various products such as granite and stainless steel kitchen sinks, bath segment and also trades in kitchen appliances. Product/segmental diversification is expected to result in operational synergies and support AL's future revenue growth.

Credit challenges

Working capital intensive business and negative free cash flows due to high capex– The company's financial risk profile is marked by high working capital intensity (NWC/OI at 38% as on March 31, 2020) owing to high inventory holding and relatively long receivable cycle. Consequently, the working capital limit utilisation was high, at 83%, during the 15-month period from April 2019 to June 2020. Free cash flow remained negative during past fiscals because of high capital expenditure.

Vulnerability of profitability to fluctuation in raw material prices and foreign exchange – AL's profitability remains vulnerable to adverse movement in the price of key raw materials i.e. resins because of its inability to pass on any increase in prices for ongoing orders. Though, the operating margins remained stable in the last two fiscals. Further, majority of AL's revenue is generated through the export market, making its profitability vulnerable to adverse forex movements.

Competition in export market- As exports constitute 70% of the total revenue, the company faces competition from established multinational companies in the international kitchen sink industry, though it benefits in terms of better cost efficiency. Further, the company is placed favourably in the domestic granite sink market.

Liquidity position: Adequate

The liquidity position of AL is adequate, cash accruals are expected to remain adequate to cover the debt repayments. Further, even after considering the proposed capacity expansion of Rs. 15 crore in the current fiscal, the unencumbered cash balance (Rs. 17.67 crore as on March 31, 2020 on consolidated basis) and the cushion in the working capital limits are expected to support liquidity.

Rating sensitivities

Positive triggers- ICRA could upgrade AL's rating if the company is able to significantly scale up its operations, while sustaining the profitability or improving the working capital intensity. Specific credit metrics that might result in an upgrade include (1) OPBDITA/Interest of 6 times or above on sustainable basis (2) ROCE above 18% on a sustained basis.

Negative triggers- Negative pressure on AL's rating could arise if there is a decline in the scale of operations along with a moderation in profitability or there is a further stretch in the working capital cycle. Further, OPBDITA/Interest below 4 times or ROCE below 15% on a sustained basis may lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of AL, along with its subsidiary Acrysil Steel Limited, Sternhagen Bath Private Limited, Acrysil GmbH, Germany, Acrysil Appliances Limited, Acrysil UK Limited and Acrysil Products Limited, UK (step-down subsidiary).

About the company:

Acrysil Limited was incorporated in 1987 by a first-generation promoter, Mr. Ashwin Parekh, and manufactures granite-based kitchen sinks, also known as "Composite Quartz Sink". The company has a technical collaboration with Germany-based "Schock & Co.", which is a leading decorative mouldings company in the world. The registered office of the company is in Mumbai and its manufacturing plant is at Bhavnagar, Gujarat which is ISO: 9001:2008 certified. At present, the unit has a total installed manufacturing capacity of 5,00,000 sinks per annum, which is to be enhanced to 6,00,000 sinks per annum at a capital outlay of Rs. 15.00 crore in FY2021.

The Group also manufactures stainless steel kitchen sinks mainly for the domestic market, through Acrysil Steel Limited (rated ICRA BBB+(CE) (Stable)/A2(CE)), wherein Acrysil Limited holds ~85% stake. AL holds 100% stake in Acrysil Gmbh, Germany, and Acrysil UK Limited. Acrysil Products Limited is a step-down subsidiary of AL, through which AL has entered the UK market. On April 30, 2020, the company also incorporated a wholly owned subsidiary namely "Acrysil USA INC" for the purpose of expansion and deeper penetration in the market across America.

On standalone basis, in FY2020, the company reported a net profit of Rs. 12.79 crore on an operating income of Rs. 214.37 crore compared to a net profit of Rs. 11.78 crore on an operating income of Rs. 198.95 crore in the previous year. In Q1FY2021, the company reported a net profit of Rs. 4.01 crore on an operating income of Rs. 36.16 crore.

On consolidated basis, in FY2020, the company reported a net profit of Rs. 22.86 crore on an operating income of Rs. 276.23 crore compared to a net profit of Rs. 17.48 crore on an operating income of Rs. 251.79 crore in the previous year. In Q1FY2021, the company reported a net profit of Rs. 4.56 crore on an operating income of Rs. 45.98 crore.

Key financial indicators (audited):

	Standalone		Consolidated	
	FY2019	FY2020	FY2019	FY2020
Operating Income (Rs. crore)	198.95	214.37	251.79	276.23
PAT (Rs. crore)	11.78	12.79	17.48	22.86
OPBDIT/ OI (%)	15.52%	15.21%	16.91%	17.23%
RoCE (%)	13.14%	13.25%	16.34%	16.83%
Total Outside Liabilities/Tangible Net Worth (times)	0.97	1.03	1.02	1.03
Total Debt/ OPBDIT (times)	2.68	2.53	2.28	2.10
Interest Coverage (times)	3.85	3.86	3.65	4.79
DSCR (times)	2.25	2.20	1.71	2.02

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date &Rating 09.09.2020	Date & Rating in FY2020 03.09.2019	Date & Rating in FY2019 25.10.2018	Date & Rating in FY2018 21.07.2017
1	Cash Credit/Working Capital Limits	Long Term	72.00	54.46^	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Interchangeable Limits	Long Term	(72.00)#		[ICRA]A- (Stable)	-	-	-
3	Term Loan	Long Term	20.62	17.39*	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
4	Letter of Credit	Short Term	10.00	0.07^	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2
5	Interchangeable Limits	Short Term	(10.00)#		[ICRA]A2+	-	-	-
6	Unallocated Limits	Long Term/Short Term	2.38		[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

*^as on June 30, 2020; *as on March 31, 2020.*

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Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
N.A.	Cash Credit/Working Capital Limits	-	9.50%	-	72.00	[ICRA]A- (Stable)
N.A.	Interchangeable Limits	-	-	-	(72.00)	[ICRA]A- (Stable)
N.A.	Term Loan	FY2014	9.25%	FY2025	20.62	[ICRA]A- (Stable)
N.A.	Letter of Credit	-	-	-	10.00	[ICRA]A2+
N.A.	Interchangeable Limits	-	-	-	(10.00)	[ICRA]A2+
N.A.	Unallocated Limits	-	-	-	2.38	[ICRA]A- (Stable)

Source: Acrysil Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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