

# Ratings

## Rating Rationale

September 11, 2020 | Mumbai

### Orient Bell Limited

*Ratings Reaffirmed*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.236.15 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL A-/Negative (Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A2+ (Reaffirmed)</b>

1 crore = 10 million

Refer to annexure for Details of Instruments &amp; Bank Facilities

#### Detailed Rationale

CRISIL has reaffirmed its 'CRISIL A-/Negative/CRISIL A2+' ratings on the bank facilities of Orient Bell Limited (OBL).

The ratings continue to reflect the company's established market position in the tiles industry, its diversified geographical reach and clientele, and comfortable financial risk profile. These strengths are partially offset by vulnerability to cyclical in the end-user real estate industry and to fluctuations in gas and raw material prices, and exposure to intense competition.

The ratings take cognizance of the impact of the government measures, including a nationwide lockdown from March 25, 2020, to contain the spread of Covid-19 and the subsequent economic slowdown, on the company business risk profile. Partial easing of the lockdown measures from June 8, 2020, should limit the impact, with performance expected to recover in the second half of fiscal 2021.

#### Analytical Approach

Unsecured loan (Rs 15 crore as on March 31, 2020) extended by the promoters has been treated as neither debt nor equity as the loan is subordinated to bank debt and may remain in the business over the medium term.

#### Key Rating Drivers & Detailed Description

##### Strengths

##### \* Established market position

With capacity of 29 million square meters, OBL is one of the leading organised tiles manufacturers in India. After acquisition of Bell Ceramic Ltd in 2010, it has become a pan-India player with plants in the northern, southern, and western regions. OBL is focused on improving its brand presence across India and has thus increased the budget for marketing and branding spends.

##### \* Diversified geographical reach and clientele

Clientele is varied, comprising institutional buyers and over 4,000 dealers across the country. Thus, revenue and profitability remain insulated from adverse fluctuations in the preferences of any particular customer or region.

##### \* Comfortable financial risk profile

Gearing was healthy at 0.15 time as on March 31, 2020, driven by low debt at around Rs 36.16 crore as on March 31, 2020 and further got reduced to Rs 29 crore as on June 30, 2020. Interest coverage and net cash accrual to total debt ratios were 3.37 times and 0.72 time, respectively, in fiscal 2020 and are projected at 5.4-8.5 times and 0.6-1.1 time, respectively, over the medium term. The financial risk profile should remain adequate, supported by prudent working capital management leading to low debt.

##### Weaknesses

##### \* Vulnerability to cyclical in the end-user industry

The ceramic tiles industry reported a decline in fiscals 2019 and 2020 due to slowdown in the real estate market. OBL's turnover fell 18% to Rs 582.99 crore in fiscal 2019 and to Rs 501.81 crore in fiscal 2020 on account of the Covid-19 pandemic and the economic slowdown. Dependence on the real estate market should continue to constrain the business risk profile.

##### \* Exposure to intense competition

Intense competition from the unorganised sector and reputed brands of companies such as Kajaria Ceramics Ltd, Nitco Ltd, Somany Ceramics Ltd, and HR Johnson India may continue to restrict scalability and limit pricing power, thereby constraining profitability.

##### \* Susceptibility to fluctuations in gas and raw material prices

Raw materials (different types of clays, feldspar, silica, kaolin and carbonates) comprise 50-60% of total operating cost, while gas and power costs comprise 20-25%. Hence, even a slight variation in input prices will drastically impact profitability, as seen in fiscal 2018, when increase in gas prices led to a fall in operating margin to 7.3% from 8.4% in fiscal 2017.

#### Liquidity Strong

Expected net cash accrual of Rs 17.5 crore and Rs 26.5 crore will be sufficient to meet debt obligation of Rs 11.8 crore and Rs 9.03 crore in fiscals 2021 and 2022, respectively. Bank limit utilisation averaged 6% over the 12 months through July 2020. Current ratio was 1.67 times as on March 31, 2020.

### Outlook: Negative

CRISIL believes OBL's revenue and operating margin will remain under pressure over the medium term due to weakened demand.

### Rating Sensitivity Factors

#### Upward Factors

- \* Increase in operating income by more than 20% and in operating margin by 250 basis points
- \* Reduction in the working capital cycle

#### Downward Factors

- \* Decline in operating income by more than 20%
- \* Fall in operating profitability by 200 basis points
- \* Larger-than-expected, debt-funded capital expenditure, weakening the financial risk profile.

### About the Company

OBL (formerly, Orient Ceramics and Industries Ltd) is a public limited company listed on the Bombay Stock Exchange and National Stock Exchange, and promoted by Mr. Daga and his family members. It manufactures glazed ceramic wall, floor, and vitrified tiles under the Orient Bell brand. Facilities are in at Sikanderabad in Uttar Pradesh, Dora in Gujarat, and Hoskote in Karnataka.

### Key Financial Indicators

Particulars	Unit	2020	2019
Revenue	Rs.Crore	501.81	582.99
Profit After Tax (PAT)	Rs.Crore	6.22	8.90
PAT Margin	%	1.24	1.53
Adjusted debt/adjusted networkth	Times	0.15	0.37
Interest coverage	Times	3.4	4.3

**Any other information:** Not applicable

### Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels).

### Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate	Maturity date	Issue size (Rs.Cr)	Complexity level	Rating assigned with outlook
NA	Letter of credit & Bank Guarantee	NA	NA	NA	80	NA	CRISIL A2+
NA	Long Term Loan	NA	NA	Mar-2023	49.15	NA	CRISIL A-/Negative
NA	Working Capital Facility	NA	NA	NA	107	NA	CRISIL A-/Negative

### Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	156.15	CRISIL A-/Negative			26-11-19	CRISIL A-/Negative	07-08-18	CRISIL A-/Stable	24-07-17	CRISIL A-/Stable	CRISIL BBB+/Positive
								30-07-18	CRISIL A-/Stable			
Non Fund-based Bank Facilities	LT/ST	80.00	CRISIL A2+			26-11-19	CRISIL A2+	07-08-18	CRISIL A2+	24-07-17	CRISIL A2+	CRISIL A2
								30-07-18	CRISIL A2+			

All amounts are in Rs.Cr.

### Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Letter of credit & Bank	80	CRISIL A2+	Letter of credit & Bank	80	CRISIL A2+

Guarantee			Guarantee		
Long Term Loan	49.15	CRISIL A-/Negative	Long Term Loan	49.15	CRISIL A-/Negative
Working Capital Facility	107	CRISIL A-/Negative	Working Capital Facility	107	CRISIL A-/Negative
<b>Total</b>	<b>236.15</b>	<b>--</b>	<b>Total</b>	<b>236.15</b>	<b>--</b>

**Links to related criteria**
[CRISILs Approach to Financial Ratios](#)
[CRISILs Bank Loan Ratings - process, scale and default recognition](#)
[Rating criteria for manufacturing and service sector companies](#)
[Rating Criteria for Construction Industry](#)
[CRISILs Approach to Recognising Default](#)
[CRISILs Criteria for rating short term debt](#)
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