Ratings
CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL
An S&P Global Company

Rating Rationale

September 06, 2021 | Mumbai

Orient Bell Limited

Rating outlook revised to 'Stable'; ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.236.15 Crore**
Long Term Rating	**CRISIL A-/Stable (Outlook revised from 'Negative'; rating reaffirmed)**
Short Term Rating	**CRISIL A2+ (Reaffirmed)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale
CRISIL Ratings has revised its outlook on the bank facilities of Orient Bell Ltd (OBL) to '**Stable**' from 'Negative' and reaffirmed the rating at 'CRISIL A-'. The short term rating has been reaffirmed at 'CRISIL A2+'.

The revision in outlook reflects expectation of continued improvement in financial and business risk profile of the company. OBL was able to register muted revenue growth in fiscal 2021 despite covid-19 adversely impacting Q1FY21. Operating revenue stood at Rs 512 crore in Fiscal 2021, 2% better than Rs. 502 crore in Fiscal 2020, however, lower than the Rs. 582 crore achieved in Fiscal 2019.

Operating profitability continued to remain moderate in the range of 5.4-7.3% over past 4 fiscals through Fiscal 2021. The same improved to 6.9% in Fiscal 2021 from 5.4% in Fiscal 2020 largely driven by demand recovery post covid-19 pandemic as well as better realizations driven by diversification in product mix including larger size tiles which were sold at premium.

The ratings also take cognizance of the performance during first quarter of Fiscal 2022, wherein OBL incurred operated losses, however, following quarters of current Fiscal 2022 are expected to be better similar to the rebound during Fiscal 2021. Sustained improvement in business risk profile leading to a better financial risk profile would remain a rating monitorable.

CRISIL Ratings on the bank facilities of OBL continues 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 cyclicality in the end-user real estate industry and to fluctuations in gas and raw material prices, and exposure to intense competition.

Analytical Approach
Unsecured loan (Rs 15 crore as on March 31, 2021) extended by the promoters has been treated as neither debt nor equity.

Key Rating Drivers & Detailed Description
Strengths:
*** Established market position**
With capacity of 27 million square meters (based on current product sizes mix), OBL is one of the leading organized 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. During Fiscal 2021, around 46% of revenues came from Norther India, followed by Southern and Western India which contributed around 24% of revenues each.

*** Comfortable financial risk profile**

Gearing was healthy at 0.07 time as on March 31, 2021, driven by low (adjusted) debt at around Rs 17 crore as on March 31, 2021, which further got reduced to Rs 15 crore as on June 30, 2021. Coverage ratios were also comfortable as reflected by interest coverage and net cash accrual to total debt ratios were 6.45 times and 1.61 time, respectively, in fiscal 2021. The financial risk profile should remain adequate, supported by prudent working capital management leading to low debt.

Weakness:

*** Vulnerability to cyclicality 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 and currently it is at 511.96 crore in fiscal 2021 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. Further, the size of a company affects the ability to absorb fixed costs during tough times such as Covid-19, wherein smaller players may incur operating losses, while comparatively bigger players might not.

*** Susceptibility to fluctuations in gas and raw material prices leading to fluctuating margins**

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. This, coupled with slowdown in construction sector, government reforms and lockdown amid covid-19, led to a further decline of margins to 5.4% in Fiscal 2020.

With better demand in Fiscal 2021 as well as various cost rationalization measures including solar energy and alternative sources of power as well as de-bottlenecking of processes has resulted in control in overall power and fuel cost management and subsequently increase in the operating margins to 7% in Fiscal 2021. Sustenance of improved operating profitability going forward would remain crucial from credit risk perspective.

Liquidity: **Strong**

Bank limit utilisation is low at around NIL for the past twelve months ended June 2021. Cash accrual are expected to be over Rs 30 crore which are sufficient against term debt obligation of 10-12 crore over the medium term. In addition, it will be act as cushion to the liquidity of the company. The company has received unsecured loans of Rs 15 crore from its promoters, as on March 31, 2021. The loans have been treated as neither debt nor equity. Current ratio improved to 1.78 times as on March 31, 2021,

Outlook Stable

CRISIL Ratings believes OBL will continue to benefit from the established market position and an comfortable financial risk profile.

Rating Sensitivity factors

Upward factors

- Increase in operating income by more than 20% and in operating margin by 300 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

As on / for the period ended March 31		2021	2020
Operating income*	Rs crore	511.96	501.81
Reported profit after tax	Rs crore	7.02	6.42
PAT margins	%	1.37	1.27
Adjusted Debt/Adjusted Net worth	Times	0.07	0.15
Interest coverage	Times	6.25	3.37

**Operating income also includes cash discount of Rs. 9.36 crore in fiscal 2021 and Rs. 8.62 crore in fiscal 2020*

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

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	30	NA	CRISIL A-/Stable
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	19.15	NA	CRISIL A2+
NA	Working capital facility	NA	NA	NA	107	NA	CRISIL A-/Stable

Annexure - Rating History for last 3 Years

	Current			2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	156.15	CRISIL A2+ / CRISIL A-/Stable		--	11-09-20	CRISIL A-/Negative	26-11-19	CRISIL A-/Negative	07-08-18	CRISIL A-/Stable	CRISIL A-/Stable
			--		--		--		--	30-07-18	CRISIL A-/Stable	--
Non-Fund Based Facilities	ST	80.0	CRISIL A2+		--	11-09-20	CRISIL A2+	26-11-19	CRISIL A2+	07-08-18	CRISIL A2+	CRISIL A2+
			--		--		--		--	30-07-18	CRISIL A2+	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Letter of credit & Bank Guarantee	**20**	**CRISIL A2+**
Letter of credit & Bank Guarantee	**11**	**CRISIL A2+**
Letter of credit & Bank Guarantee	**7**	**CRISIL A2+**
Letter of credit & Bank Guarantee	**22**	**CRISIL A2+**
Letter of credit & Bank Guarantee	**10**	**CRISIL A2+**
Letter of credit & Bank Guarantee	**10**	**CRISIL A2+**
Long Term Loan	**30**	**CRISIL A-/Stable**
Proposed Fund-Based Bank Limits	**19.15**	**CRISIL A2+**
Working Capital Facility	**44**	**CRISIL A-/Stable**
Working Capital Facility	**9**	**CRISIL A-/Stable**
Working Capital Facility	**23**	**CRISIL A-/Stable**
Working Capital Facility	**5**	**CRISIL A-/Stable**
Working Capital Facility	**16**	**CRISIL A-/Stable**
Working Capital Facility	**10**	**CRISIL A-/Stable**

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios

Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Construction Industry
CRISILs Approach to Recognising Default
CRISILs Criteria for rating short term debt

Media Relations	Analytical Contacts	Customer Service Helpdesk
Saman Khan Media Relations **CRISIL Limited** D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com **Naireen Ahmed** Media Relations **CRISIL Limited** D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com	Nitin Kansal Director **CRISIL Ratings Limited** D:+91 124 672 2154 nitin.kansal@crisil.com Akshita Jain Associate Director **CRISIL Ratings Limited** D:+91 124 672 2189 Akshita.Jain@crisil.com Devansh Jain Senior Rating Analyst **CRISIL Ratings Limited** B:+91 124 672 2000 Devansh.Jain@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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About CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

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For more information, visit www.crisilratings.com

About CRISIL Limited

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