March 23, 2021 (Revised)

Asian Granito India limited: Ratings reaffirmed; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based —Term Loan	15.44	31.27	[ICRA]A (Stable); reaffirmed and outlook revised to Stable from Negative
Long-term Fund-based— Cash Credit	170.00	167.00	[ICRA]A (Stable); reaffirmed and outlook revised to Stable from Negative
Unallocated Limits	4.29	0.00	-
Short-term Non-fund-based limits	72.27	55.84	[ICRA]A1; reaffirmed
Total	**262.00**	**254.11**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the rating outlook to 'Stable' factors in the expected improvement in the financial risk profile of the Asian Granito India Limited's (AGL) in FY2021, driven by strong revenue recovery over Q2 and Q3FY2021 on the back of healthy volume off-take from the export and domestic markets, post muted performance in Q1FY21 due to the nationwide lockdown. Moreover, the adoption of cost restraining strategies along with the decline in power and fuel cost (softened gas prices) supported the improvement in the operating profit margins (OPM) to 11.0% in 9MFY2021 from 9.9% in 9MFY2020. In September 2019, AGL had proposed to raise equity to the tune of Rs. 85 crore through preferential allotment to promoter and non-promoter groups. AGL raised equity worth ~Rs. 21.1 crore in FY2020 and ~Rs. 25.5 crore in the current fiscal (till March 08, 2021). The fund raised in the current fiscal comforted the liquidity requirement. ICRA believes that at a consolidated level, AGL's sales are estimated to grow by ~7-8% on the back of continued healthy demand while the OPM levels are likely to remain ~10-11% in FY2021, supported by the adoption cost rationalisation measures.

The rating continues to draw comfort from AGL's brand presence and its established market position in the domestic tiles industry, its wide product range, and its strong dealers/distributors network across India. The ratings also consider the above-average financial risk profile, marked by a comfortable capital structure with a gearing of 0.6 times and a net worth base of Rs. 540 crore as on September 30, 2020. AGL will be raising the balance equity of ~Rs. 38.0 crore by April 2021, against a preferential equity allotment to promoter and non-promoter groups, which is estimated to improve the capital structure and liquidity.

The ratings are, however, constrained by the intense industry competition, marked by the presence of large organised players as well as numerous small-scale tile manufacturers, and the cyclicality associated with the real estate sector. The ratings are also constrained by the Group's working capital intensive operations and the susceptibility of its profitability to fluctuations in key raw material and gas prices.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that the company will continue to benefit from the extensive experience of its promoters and its established brand presence in the ceramic industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established brand presence in Indian tile industry – AGL's experience of over two decades in the tile industry has helped it to forge a strong relationship with suppliers and customers. Besides, its wide range of product offerings are expected to support the business profile. AGL is the fourth largest player in the Indian tile industry and accounts for approximately ~3-4% of the Indian tile market, wherein the share of organised players is close to ~40%. The company has a widespread distribution network, which enhances its market presence.

Wide product range; healthy volume off-take to support revenue growth in FY2021 – The company's product portfolio remains well diversified, comprising the entire basket of tile offerings and covering a wide range of wall/flooring solutions. The dealer/distributor network of the Group increased over the period, with 6500 dealer/sub-dealers and 302 exclusive showrooms pan-India. Further, the aggressive marketing initiatives and the expansion of distribution network have supported the volume growth over the years. The sales volumes moderated marginally in FY2020, owing to the weak volume off-take from the domestic and export markets amidst the Covid-19. However, the volume off-take improved over Q2 and Q3FY2021, supported by healthy demand from the export market. Moreover, improved volume off-take from the domestic market also contributed to the volume growth in the current fiscal. Adoption of cost restraining strategies along with softened gas prices, improved the operating margin to ~11.0% in 9MFY2021 from 9.90% in 9MFY2020. ICRA believes that at a consolidated level, AGL's sales are estimated to grow by ~7-8% while the OPM levels are likely to increase to ~10-11% in FY2021 on the back of continued healthy demand and controlled cost outgo.

Above-average financial risk profile – The financial risk profile remains above average, marked by a strong net worth base of ~Rs. 517 crore, gearing of 0.6 times and interest coverage of ~3.10 times for March 2020 at the consolidated level. Healthy accretion to the reserves and equity raising of ~Rs. 11 crore strengthened the net-worth base further to Rs. 540 crore as on September 2020. AGL further raised equity of ~Rs. 13 crore in H2FY2021 (till March 08, 2021). Healthy net-worth base and modest debt level are expected to result in a comfortable capital structure and debt-coverage indicators for FY2021—estimated gearing of 0.5 times and interest coverage of 2.3 times.

Credit challenges

Vulnerability of profitability to changes in raw material and fuel prices – AGL's profitability continues to be vulnerable to any increase in the prices of raw materials and fuel as these two components contribute to a major part of the cost structure. In FY2020, the moderation in gas price and the increased realisation due to higher sale of high margin marble and quartz sale improved the profit margin to 9.50% in FY2020 from 7.20% in FY2019. To shield the profitability, the management adopted cost restraining strategies, which along with softened gas prices, elevated margins to 11.0% in 9MFY2021. The power and fuel cost, which accounted for ~11% of the total sales in FY2020 compared to ~14% in FY2010, stood lower at ~8% in H1 FY2021. The outgo towards power and fuel cost is likely to increase in Q4FY2021 on the back of rise in gas prices. However, the undertaken price revision is likely to stabilise the profitability.

Intense competition and vulnerability to cyclicality in end-user industry – The ceramic tiles industry is intensely competitive, with many small and large players. Additionally, the industry is fragmented and dominated by the unorganised sector. Although AGL is one of the leading players in the ceramic tiles industry in India, the company faces significant competition from reputed players such as Kajaria Ceramics Ltd, Somany Ceramic Limited, H&R Johnson (India) (a division of Prism Cement Ltd) and Orient Bell Ltd. The competition, intensified in the recent past because of significant capacity addition over FY2017-FY2018 and moderation in demand with continued slowdown in the real estate sector, which pressurised the overall tile realisation of the company in the past. Intense competition restricts the profitability, given the limited pricing flexibility.

High working capital intensity of operations – The company's working capital intensity has remained high, reflected by NWC/OI of ~30% over FY2019-2020, because of high receivables (~110 days as on March 2020) and inventory levels (~105 days). AGL normally provides an average credit period of up to 90 days to its customers and receives a 90-120 days credit period from its suppliers. The company maintains about 45-60 days of raw material and packing materials inventory and about 60 days of finished goods inventory (of various size and designs) to service any immediate requirement, resulting in high overall inventory days.

Liquidity position: Adequate

The liquidity position remains adequate as indicated by sufficient estimated annual cash accruals of Rs.~85-90 crore as against debt repayments of Rs. 15-30 crore over FY2021-2023. The liquidity position is further comforted by the free cash & bank / liquid investment of ~Rs. 24.0 crore and undrawn limit of ~Rs. 33.0 crore as on December 2020. The AGL Group has availed Guaranteed Emergency Credit Line (GECL) lines of ~Rs. 37.0 crore (to be disbursed by March 2021), which will further enhance the liquidity buffer. The Group also raised equity of Rs. 25.5 crore in the current fiscal (till March 08, 2021), which supported the intermittent liquidity requirement. The balance fund raising of ~Rs. 38.0 crore by April 2021 would further support its liquidity position.

Rating sensitivities

Positive factors –

- Healthy scale up of operations on sustained basis coupled with expansion in profit margins
- Improvement in working capital cycle, leading to improved liquidity
- TD/OBDITA of 2 times or low and interest coverage of 5.0 times or above at consolidated level on sustained basis

Negative factors –

- Significant decline in scale or deterioration in profit margins on the back of competitive pressure or increase in input cost—TD/OPBDITA of 3.0 times or above and interest coverage of 3 times or below on sustained basis
- Large debt-funded capex or stretch in working capital cycle which weakens the liquidity profile of the Group

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	While arriving at the ratings, ICRA has considered the consolidated financials of Asian Granito India Limited. As on September 30, 2020, the company had three subsidiaries, one-step down subsidiary and one associate concern.

About the company

Asian Granito India Limited was incorporated in 2002 as a manufacturer of ceramic tiles by Mr Kamlesh Patel and Mr. Mukesh Patel. The company has expanded its production capacities as well as product range over the years and today it is a leading ceramic player, providing manufacturing and marketing flooring solutions under its brand, AGL. The product range includes wall tiles, vitrified tiles, ceramic floor tiles, marble and quartz. AGL has ten manufacturing facilities (including three facilities of subsidiaries) in Gujarat.

At a consolidated level, AGL reported profit after tax (PAT) of Rs. 43.00 crore on an operating income (OI) of Rs. 1225 crore in FY2020, compared to a PAT of Rs. 19 crore on an OI of Rs. 1187 crore in FY2019. In H1FY2021, AGL reported profit after tax (PAT) of Rs. 37 crore on an operating income (OI) of Rs. 858 crore in 9MFY2021.

Key financial indicators (audited) - Standalone

Asian Granito India Limited - Standalone	FY2019	FY2020	H1FY2021*
Operating Income (Rs. crore)	1005	1013	389
PAT (Rs. crore)	7.00	30.00	3.00
OPBDIT/OI (%)	4.1%	6.7%	8.5%
RoCE (%)	5.5%	9.2%	7.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.1	1.0
Total Debt/OPBDIT (times)	3.9	2.4	2.4
Interest Coverage (times)	2.2	4.0	4.3
DSCR (times)	1.8	2.4	2.8

Key financial indicators (audited) - Consolidated

Asian Granito India Limited - Consolidated	FY2019	FY2020	H1FY2021*
Operating Income (Rs. crore)	1187	1225	474
PAT (Rs. crore)	19.00	43.00	12.00
OPBDIT/OI (%)	7.2%	9.5%	9.5%
RoCE (%)	7.8%	10.4%	6.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.3	1.3
Total Debt/OPBDIT (times)	4.2	2.7	3.6
Interest Coverage (times)	2.3	3.1	2.7
DSCR (times)	1.5	1.7	1.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: Company, ICRA Research; All ratios as per ICRA calculations; H1FY2021 - Unaudited figures

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2020 (Rs. crore)	Date & Rating in	FY2021	FY2021	FY2020
					Mar 23, 2021	Jul 27, 2020	Jun 08, 2020	Jan 06, 2020
1	Long-term Fund-based —Term Loan	Long Term	31.27	7.00^	[ICRA]A (Stable); reaffirmed and outlook revised to Stable from Negative	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)
2	Long-term Fund-based— Cash Credit	Long Term	167.00	-	[ICRA]A (Stable); reaffirmed and outlook revised to Stable from Negative	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)
3	Unallocated Limits	Long Term	0.00	-	-	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)
4	Short-term Non-fund-based limits	Short Term	55.84	-	[ICRA]A1; reaffirmed	[ICRA]A1	[ICRA]A1	[ICRA]A1

^Source: AGL financials

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.i

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	167.00	[ICRA]A (Stable); reaffirmed and outlook revised to Stable from Negative
NA	Term Loan	Mar-2017	-	Mar-2026	31.27	
NA	Short-term Non-fund-based limits	-	-	-	55.84	[ICRA]A1; reaffirmed

Source: *Asian Granito India Limited*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Type	AGL Ownership	Consolidation Approach
AGL Industries Limited	Subsidiary	100% (Non-rated entity)	Full Consolidation
Powergrace Industries Limited	Step-down Subsidiary	100% (Non-rated entity)	Full Consolidation
Crystal Ceramic Industries Private Limited	Subsidiary	70.00% (Rated entity)	Full Consolidation
Amazoone Ceramics Limited	Subsidiary	95.32% (Rated entity)	Full Consolidation
Astron Paper & Board Mill Limited	Associate	18.87%	Equity Method

Source: *Company data*

Note: *ICRA has considered consolidated financials of the AGL while assigning the ratings.*

Corrigendum

Document dated March 23, 2021 has been corrected with revisions as detailed below:

- In the 'Key financial indicators (audited) - Standalone' section on page 4, the company's name has been corrected to Asian Granito India Limited – Standalone.
- In the 'Key financial indicators (audited) - Consolidated' section on page 4, the company's name has been corrected to Asian Granito India Limited – Consolidated.

ANALYST CONTACTS

Shubham Jain
+91 124 4545 306
shubhamj@icraindia.com

Ankit Patel
+91 079 4027 1509

ankit.patel@icraindia.com

Sanket Thakkar
+91 79 4027 1528
sanket.thakkar@icraindia.com

Tanay Chhaya
+91 79 4027 1524
tanay.chhaya@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches