September 13, 2022

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term loan	31.27	31.27	[ICRA]A+ reaffirmed; outlook revised to Negative from Stable
Fund-based - Working capital facilities	167.00	167.00	[ICRA]A+ reaffirmed; outlook revised to Negative from Stable
Non-fund based - Bank guarantee & Letter of credit	55.84	55.84	[ICRA]A1 reaffirmed
Total	**254.11**	**254.11**	

**Instrument details are provided in Annexure I*

Rationale

The revision in outlook to Negative factors in ICRA's expectation that the profitability of Asian Granito India Limited (AGL) is likely to remain under pressure in the near to medium term, in the backdrop of sharp increase in gas prices. ICRA notes that the gas price has witnessed significant upsurge in the recent past, especially in the subsidiary, Crystal Ceramic Industries Pvt. Ltd. (CCIPL). Notwithstanding the periodic price revisions undertaken by the company, its inability to fully pass on the same in a timely manner has resulted in a significant moderation in the operating profitability during FY2022 and Q1 FY2023. Nonetheless, given the low leverage, the debt coverage indicators are expected to remain at a comfortable level with interest cover likely to remain over four times going forward. Apart from the susceptibility of its profitability to adverse fluctuations in raw material and fuel prices, the ratings also remain constrained by the working capital-intensive nature of the company's operations. AGL derives a sizeable share of its revenues from the project business, which results in an elongated receivable cycle and higher working capital intensity than other similar-sized peers in the industry. The ratings also factor in the intense industry competition from large as well as mid-sized players in the organised market, and the cyclicality associated with the real estate sector, which remains the key end-user of tiles. ICRA also notes the search and seizure operation carried out by the Income Tax (I-T) department at various locations of the Group during May 2022 and would continue to closely monitor any further developments related to this event and take appropriate rating action, if necessary.

The ratings, however, factor in the improvement in the capital structure of AGL, following the fund raising of ~Rs. 225 crore and ~Rs. 440 crore through a rights issue in October 2021 and May 2022 respectively, resulting in a substantial reduction in the overall debt levels supporting the liquidity position of the company. Of the proceeds from the right issue, around Rs. 165 crore has been utilised towards debt reduction, which would improve the capital structure, while the balance is currently parked in fixed deposits with the banks/financial institutions, and will be utilised towards ongoing capacity expansion plans and working capital requirements. Nonetheless, the fund raising is expected to result in a significant moderation in the return indicators until commensurate returns from the capex starts flowing in.

The ratings continue to favourably consider the extensive experience of AGL's promoters in the tiles industry and the company's established brand positioning in the domestic market, which, along with its diversified product range and wide distribution network, have resulted in steady sales growth.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters; established presence in Indian ceramic industry - AGL's promoters have extensive experience of over two decades in the ceramic industry, which has helped it to forge a strong relationship with its suppliers and customers. At present, AGL is the fourth largest player in the domestic ceramic tiles industry and accounts for approximately ~3-4% of the domestic market share.

Diversified product profile and wide distribution network - The product portfolio of the Group is well diversified and comprise ceramic wall and floor tiles, vitrified tiles, quartz, marble and sanitaryware. The Group has an established presence in the domestic market with a wide distribution network comprising over 6500 dealers/sub-dealers and 311 exclusive showrooms pan-India currently. Moreover, the Group also exports to the Middle East, the US, the UK, Europe, Africa and Indonesia (around 13% of the Group's revenues were derived from exports in FY2022).

Equity infusion through right issue to support credit metrics - The company has raised equity through rights issues of ~Rs. 225 crore in October 2021 and ~Rs. 440 crore in May 2022, which is expected to significantly improve the net worth levels (from Rs. 918 crore as on FY2022-end and Rs. 626 crore as on FY2021-end). Of the proceeds from the rights issue, around ~Rs. 165 crore has been utilised towards debt reduction, which would improve the capital structure (Total Debt/TNW is expected to remain at 0.1 times in FY2023 compared to 0.2 times in FY2022 at consolidated level), while the balance will be utilised towards ongoing capacity expansion plans and working capital requirements (to support sales growth). Supported by deleveraging measures undertaken by the company, ICRA expects AGL's consolidated Total Debt/OPBIDTA to be below 1.5 times in FY2023 compared to 1.6 times in FY2022 and 2.2 times in FY2021.

Credit challenges

Moderation in profitability; vulnerability of adverse fluctuations in raw material and fuel prices - Raw material and fuel are the two major cost components (~70%-75%) for the company and thus, its profitability remains susceptible to fluctuations in raw material and fuel prices, given its limited ability to pass on the rise to customers amid intense industry competition. ICRA notes that gas prices have witnessed a significant upsurge in the recent past, especially in the subsidiary, Crystal Ceramic Industries Pvt. Ltd., which earlier enjoyed access to cheaper gas from ONGC. Notwithstanding the periodic price revisions undertaken by the company, its inability to timely pass on the same in a timely manner has resulted in a moderation in operating profitability to 8.0% in FY2022 and further to 1.7% in Q1 FY2023 (compared to 10.5% in FY2021). Thus, the company's ability to pass on the price hike in a timely manner remains to be seen and could exert pressure on the company's margins in the current fiscal. This, along with significant capital expansion is expected to result in a significant moderation in the return indicators in the medium term, until commensurate returns from the capex starts flowing in.

Working capital intensive operations - The company's working capital intensity has remained high, reflected by NWC/OI of around 30-35% in the past, because of high receivables and inventory levels. AGL normally provides a credit period of up to 90 days to its customers and receives a credit period of up to 120 days from its suppliers. Besides, the company maintains around 45-60 days of its raw material requirement and finished goods inventory to service any immediate requirements, resulting in high overall inventory days.

Intense competition and cyclicality in real estate industry - The ceramic tile industry is intensely competitive, with the presence of large players such as Kajaria Ceramics, H&R Johnson (India) (a division of Prism Johnson) and Somany Ceramics as well as other mid-sized players in the organised market. Moreover, the real estate industry remains the major end-user of the ceramic tiles and hence, the Group's revenues and cash flows are vulnerable to the cyclicality in the end-user industry.

Liquidity position: Adequate

The liquidity position is adequate supported by ~Rs. 225 crore and ~Rs. 440 crore of fund raising through right issue in October 2021 and May 2022 respectively, which has resulted in a reduction of the debt levels by ~Rs. 165 crore, resulting in minimal term debt repayments going forward. Further, while the company has significant ongoing capex planned during FY2023 and FY2024, the company has earmarked Rs. 288 crore from the proceeds of right issue to fund the capex. Further, the Group has around Rs. 17.5 crore of cushion in working capital limits as on June 30, 2022 at a consolidated level. ICRA, however, notes that any significant demand from the I-T department on account of the recent search and seizure operation, which impacts the liquidity position would remain a key monitorable.

Rating sensitivities

Positive factors - The outlook can be revised to stable with improvement in the scale and profit margins on a sustained basis at a consolidated level along with an improvement in the overall liquidity position.

Negative factors - Downward pressure on the ratings could arise if any significant decline in scale or further pressure on the profitability, leads to lower-than-expected cash accruals. Further, any large debt-funded capex or a significant stretch in the working capital cycle or any significant demand from the I-T department on account of the recent search and seizure operation, which weakens the liquidity profile at a consolidated level, may also lead to a downward revision in the ratings. Specific credit metrics include Total Debt/OPBDITA above 2.0 times at a consolidated level on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of AGL. As on March 31, 2022, AGL had four subsidiaries and one step-down subsidiary (as per Annexure – II)

About the company

Incorporated in 2002 by Mr. Kamlesh Patel and Mr. Mukesh Patel, Asian Granito India Limited is a public limited company listed on the Bombay Stock Exchange and the National Stock Exchange. It is a leading manufacturer of ceramic tiles with a product range including wall tiles, floor tiles, vitrified tiles, marble, quartz and sanitaryware. Over the years, the company has expanded its production capacities as well as product range, providing the manufacturing and marketing of flooring solutions under the brand name of AGL. AGL has ten manufacturing facilities (including three facilities of subsidiaries) in Morbi and Himmatnagar region of Gujarat, with an overall installed capacity of ~26.4 million sq. mt. at present.

Key financial indicators (audited) - Standalone

Standalone	FY2021	FY2022	Q1 FY2023*
Operating income (Rs. crore)	1,036.2	1,349.1	263.7
PAT (Rs. crore)	49.2	87.9	7.3
OPBDIT/OI (%)	9.4%	6.5%	4.7%
PAT/OI (%)	4.8%	6.5%	2.8%
Total outside liabilities/Tangible net worth (times)	0.8	0.3	NK
Total debt/OPBDIT (times)	1.2	0.2	NK
Interest coverage (times)	5.7	12.6	8.6

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; * Based on limited review financials; NK – Not Known*

Key financial indicators (audited) - Consolidated

Consolidated	FY2021	FY2022	Q1 FY2023*
Operating income (Rs. crore)	1,292.3	1,563.8	310.0
PAT (Rs. crore)	55.7	91.6	(4.3)
OPBDIT/OI (%)	10.5%	8.0%	1.7%
PAT/OI (%)	4.3%	5.9%	-1.4%
Total outside liabilities/Tangible net worth (times)	1.1	0.6	NK
Total debt/OPBDIT (times)	2.2	1.6	NK
Interest coverage (times)	3.9	5.3	1.0

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; * Based on limited review financials; NK – Not Known*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)					Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating on		Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Sep 13, 2022	Jun 3, 2022	Oct 27, 2021	Mar 23, 2021	Jul 27, 2020 Jun 8, 2020	Jan 6, 2020
1	**Term loan**	Long-term	31.27	Nil	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)
2	**Working capital facilities**	Long-term	167.00	NA	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)
3	**Bank guarantee & Letter of credit**	Short-term	55.84	NA	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Term loan	Simple
Long-term - Working capital facilities	Simple
Short-term - Bank guarantee & 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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan I**	FY2021	7.5%	FY2023	29.86	[ICRA]A+ (Negative)
NA	**Term loan II**	FY2017	10.55%	FY2022	1.41	[ICRA]A+ (Negative)
NA	**Working capital facilities**	NA	NA	NA	167.00	[ICRA]A+ (Negative)
NA	**Bank guarantee & Letter of credit**	NA	NA	NA	55.84	[ICRA]A1

Source: Asian Granito India Limited

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company	Ownership	Consolidation Approach
Amazoone Ceramics Ltd.	97.77% (rated entity)	Full Consolidation
Crystal Ceramic Industries Pvt. Ltd.	70% (rated entity)	Full Consolidation
AGL Global Trade Pvt. Ltd.	100%	Full Consolidation
Future Ceramics Pvt. Ltd.	100%	Full Consolidation
AGL Sanitaryware Pvt. Ltd	100%	Full Consolidation
AGL Surfaces Pvt. Ltd.	100%	Full Consolidation
Powergrace Industries Ltd.	100% (step-down subsidiary)	Full Consolidation
Gresart Ceramics Pvt. Ltd.	100% (step-down subsidiary)	Full Consolidation

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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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