

February 10, 2023

Asian Granito India Limited: Rating downgraded to [ICRA] A- (Negative); short-term rating reaffirmed at [ICRA] A2+

Summary of rating(s) Action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital	100.00	100.00	[ICRA]A-(Negative); downgraded from [ICRA] A (Negative)
Non-fund based - Bank Guarantee & Letter of Credit	56.00	56.00	[ICRA]A2+; reaffirmed
Total	156.00	156.00	

Rationale

The downgrade in the ratings of Asian Granito India Limited (AGL) factors in the significant moderation in its profitability over the past several quarters (ending December 31, 2022) because of a sharp increase in input gas prices, which has weakened its debt coverage metrics. The Negative outlook reflects ICRA's expectation that the company's credit profile is likely to remain under pressure in the medium term, in the backdrop of elevated input cost pressure. ICRA notes that AGL has underperformed compared to other larger peers because of non-availability of APM gas (resulting in spot purchase from Sabarmati Gas) in its subsidiary Crystal Ceramic Industries Pvt Ltd (CCIPL) and change in product profile (in subsidiaries – Amazoone Ceramics Ltd and CCIPL), which led to lower capacity utilisation. Moreover, the debtor write-off and input cost pressure impacted the profitability of standalone operations, thereby further dragging the profitability at the consolidated level. Going forward, the company's ability to ramp-up operations of its subsidiary and improve the overall profitability levels remains a key rating monitorable.

Apart from the susceptibility of its profitability to adverse fluctuations in raw material and fuel prices, the ratings 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 factor in the intense competition in the industry from large as well as mid-sized players in the organised market, and the cyclical nature associated with the real estate sector, which remains the key end-user of tiles.

The ratings, however, continue to factor in AGL's low leverage (TOL/TNW of 0.2 times as on September 30, 2022), following the fund raising of ~Rs. 665 crore over the past year, resulting in a reduction in the overall debt levels. Of the total proceeds from the right issue, around Rs. 230 crore is currently parked in fixed deposits with the banks/financial institutions, which have been earmarked towards the ongoing capacity expansion plans and working capital requirements, limiting the company's dependence on external debt. Nonetheless, given the expectation of subdued profitability, the return metrics are likely to remain constrained until commensurate returns from the capex starts flowing in. The ratings note the extensive experience of AGL's promoters in the tiles industry and its established brand positioning in the domestic market, which, along with its diversified product range and wide distribution network led to steady sales growth.

ICRA has previously considered the search and seizure operation carried out by the Income Tax (I-T) Department at various locations of the AGL Group in May 2022. ICRA would continue to closely monitor any further developments in this regard and take appropriate rating action, if necessary.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters; established presence in Indian ceramic industry – AGL’s promoters have extensive experience spanning 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 6,500 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 has resulted in significant improvement in the net worth levels to Rs. ~1,300 crore in December 2022 (from Rs. 918 crore in 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 has improved the capital structure (TOL/TNW of 0.2 times as on September 2022, at the consolidated level), while the balance will be utilised towards its ongoing capacity expansion plans and working capital requirements (to support sales growth).

Credit challenges

Moderation in profitability; vulnerability to adverse fluctuations in raw material and fuel prices – Raw material and fuel are the two major cost components (~70%-75%) for the company. Its profitability remains susceptible to fluctuations in raw material and fuel prices, given the limited ability to pass on the rise to customers amid the intense competition in the industry. ICRA notes that gas prices witnessed a significant upsurge in the recent past, especially in the subsidiary, CCIPL, which earlier enjoyed access to cheaper gas from ONGC. Notwithstanding the periodic price revisions undertaken by the company, its inability to pass on the same in a timely manner resulted in a considerable moderation in operating profitability (-2.2% in 9M FY2023, from 8.0% in FY2022 and 10.5% in FY2021). Going forward, company’s ability to pass on the price hikes remains crucial for improvement in the overall profitability indicators and remains a key monitorable. Moreover, substantial 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 35-40% in the past, because of high receivables and inventory levels. AGL normally provides a credit period of up to 100 days to its customers and receives a credit period of up to 120 days from its suppliers. Besides, it maintains around 60-90 days of its raw material requirement and finished goods inventory to service any immediate requirements, resulting in high overall inventory days.

Intense competition and cyclicity 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. Hence, the Group’s revenues and cash flows are vulnerable to the cyclicity in the end-user industry.

Liquidity position: Adequate

As on December 31, 2022, the company had unencumbered cash and liquid investments of around ~Rs. 14 crore (excluding ~Rs. 230 crore earmarked against capex as per the right issuer offer letter), which along with undrawn lines of Rs. 41.78 crore supports its liquidity position. ICRA notes that AGL does not have any material long-term debt repayment obligations, and it is expected to maintain adequate buffer in its working capital lines.

Rating sensitivities

Positive factors – The outlook can be revised to Stable with improvement in the profit margins and the overall liquidity position, on a sustained basis, at a consolidated level.

Negative factors – Downward pressure on the ratings could arise in case of a substantial decline in scale or inability to improve profitability. Further, any large debt-funded capex or a considerable 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 consolidated liquidity profile, may lead to a downward revision in the ratings.

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 December 31, 2022, AGL had five subsidiaries and two step-down subsidiaries (as per Annexure – II).

About the company

Incorporated in 2002 by Mr. Kamlesh Patel and Mr. Mukesh Patel, Asian Granito India Limited (AGL) 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 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. The company is listed on the Bombay Stock Exchange and the National Stock Exchange.

Key financial indicators (audited)

	Standalone			Consolidated		
	FY2021	FY2022	9M FY2023 (unaudited)	FY2021	FY2022	9M FY2023 (unaudited)
Operating income (Rs. crore)	1,036.2	1,349.1	955.1	1,292.3	1,563.8	1,107.0
PAT (Rs. crore)	49.2	87.9	5.8	55.7	91.6	(38.7)
OPBDIT/OI (%)	9.4%	6.5%	0.5%	10.5%	8.0%	(2.2%)
PAT/OI (%)	4.8%	6.5%	0.6%	4.3%	5.9%	(3.5%)
Total outside liabilities/Tangible net worth (times)	0.8	0.3	NK	1.1	0.6	NK
Total debt/OPBDIT (times)	1.2	0.2	NK	2.2	1.6	NK
Interest coverage (times)	5.7	12.6	0.7	3.9	5.3	(1.5)

NK: Not Known

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Feb 29, 2022 (Rs. crore)	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years				
				Date & Rating in				Date & Rating in FY2022	Date & Rating in FY2021			
				Feb 10, 2023	Nov 25, 2022	Sep 13, 2022	Jun 3, 2022	Oct 27, 2021	Mar 23, 2021	Jul 27, 2020	Jun 8, 2020	Jan 6, 2020
1 Term Loans	Long-term	-	NA	-	-	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)
2 Working Capital Facilities	Long Term	100.00	NA	[ICRA]A-(Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)
3 Bank Guarantee & Letter of Credit	Short Term	56.00	NA	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4 Unallocated Limits	Long Term	-	-	-	-	-	-	-	-	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Fund-based – Working Capital	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: [Click Here](#)

Annexure-I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working Capital	NA	NA	NA	100.00	[ICRA]A-(Negative)
NA	Bank Guarantee & Letter of Credit	NA	NA	NA	56.00	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Amazoone Ceramics Ltd	97.77%	Full Consolidation
Crystal Ceramic Industries Pvt. Ltd.	70%	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

Source: Company's annual report FY2022

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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.

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Branches



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