Asian Granito India Limited

January 09, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loan	15.00	24.00	[ICRA]A (Stable); Reaffirmed
Long-term Fund-based Cash Credit	200.00	200.00	[ICRA]A (Stable); Reaffirmed
Unallocated Limits	36.16	17.16	[ICRA]A (Stable); Reaffirmed
Short-term Non Fund-based limits	60.84	70.84	[ICRA]A1; Reaffirmed
Commercial Paper Programme	40.00	40.00	[ICRA]A1+(SO); Outstanding
Total	**352.00**	**352.00**	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A (pronounced ICRA A) on the Rs. 24-crore[1] term loans (increased from Rs. 15.00 crore), the Rs. 200.00-crore cash credit facility and the Rs. 17.16-crore unallocated limits (reduced from Rs. 36.16 crore) of Asian Granito India Limited (AGL or the company) [2]. ICRA has also reaffirmed the short-term rating of [ICRA]A1 (pronounced ICRA A one) on the Rs. 70.84-crore non fund-based limits (increased from Rs. 60.84 crore) of AGL. The outlook on the long-term rating is Stable. ICRA has also an outstanding rating of [ICRA]A1+(SO) assigned for Commercial Paper Programme.

Rationale

The rating factors in the sustained improvement in profit margins in FY2017 and H1 FY2018 at consolidated levels aided by increased contribution of value added products in tiles segment, with newly commissioned capacity of double-charged vitrified tiles and glazed vitrified tiles in Crystal Ceramics Private Limited (Crystal Ceramics) during FY2017 and expansion of product range in high margin marble and quartz segment (commissioning of new line from April 2017 in AGL). At consolidated level, the operating margins were further supported by the increased sales contribution from Crystal Ceramic unit, wherein the company enjoys domestic gas supply arrangement with ONGC Limited at APM pricing (~1/3rd cost of RLNG based PNG rates), leading to savings in overall power and fuel expenses. ICRA notes that the working capital intensity of the company has increased as on FY2017 end as reflected by NWC/OI of ~32%, led by increase in debtor days and inventory levels and this also resulted in higher than expected total debt levels. However, the gearing and debt coverage indicators have remained in line with expectations due to better profit margins and healthy accruals. Going forward, the conversion of Rs. 22.50 crore of unsecured loans into equity in Crystal Ceramics, expected accruals, scheduled debt repayments and absence of any major debt funded capex will result in improvement in debt coverage indicators in the medium term.

---

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Rating concerns emanate from the highly competitive nature of the tile industry, marked by the presence of both large and organised players as well as numerous small scale tile manufacturers (centred largely in Morbi, Gujarat) and high working capital intensity of operations, which together results in moderate return indicators and vulnerability of profit margins to rise in input costs, especially power and gas. Slowdown in real estate sector, demonetisation and implementation of Goods and Service Tax (GST) has curtailed the growth in FY2017 and the demand slowdown is likely to continue in the near term with growth trajectory to reamin in single digit for FY2018 as well. Nonetheless, the rising presence in export market, expansion of product range, capacity enhancement through recently incorporated joint venture (between AGL and Paramshree Granito Limited, with share of former at 51%), established distribution network and further strengthening of brand equity with aggressive marketing initiatives is expected to support the growth in business performance in the medium to longer run. The ability of the company to increase its scale and profitability, amidst competitive pressure and demand slowdown, to improve its working capital cycle and to improve debt coverage metrics would be some of the key rating drivers.

Outlook: Stable

ICRA believes AGL will continue to benefit from the strong brand presence and extensive experience of its promoters. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to Negative if cash flows are lower than expected, or if, any major debt-funded capital expenditure or stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of promoters and established brand presence in the Indian tile industry - AGL was incorporated in the year 2002 and its promoters have an experience of over two decades in the tile industry. Thus, the promoters' long experience in the industry, established relationships with suppliers and customers and 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 the organised players is expected to be close to ~40%. The company also have a widespread distribution network, which enhances its market presence.

Focus on value added products supported the profit margins – The product portfolio of the company remains well diversified, comprising of the entire basket of tile offerings covering a wide range of wall/flooring solutions. Strong focus on value added products in tile segment and expansion of product range in marble and quartz segment have resulted in improvement in realisations and profit margins for the company. Improvement in operating margins was further supported by savings in power and fuel expenses, arising from domestic gas supply arrangement with ONGC Limited at APM pricing (presently Rs. 8-9 per standard cubic meter) at Crystal Ceramic plant, against the market rate of Rs. 28-29 per scm for the other units of AGL and players based out of Morbi and Himmatnagar. As a result, from 9.14% in FY2016, operating margins increased to 11.59% in FY2017 and further to ~13.3% in H1 FY2018.

Healthy financial risk profile – The financial risk profile of the company remains healthy marked by strong net-worth base of ~Rs. 427 crore and gearing of 0.8 time as on September 30, 2017 at consolidated level. The debt protection metrics improved in FY2017, with Interest coverage at 3.13 times and TD/OPBDITA at 2.73 times for FY2017. ICRA expects improvement in capital structure and debt protection metrics in FY2018 and FY2019 on the back of expanding profit margins, healthy accruals, scheduled debt repayments and absence of any major debt funded capex in the near term.

Credit challenges

Intense competition - The tile industry continues to remain competitive with presence of both large and organised players as well as numerous small scale tile manufacturers. Slowdown in real estate sector, demonetisation and GST has impacted the overall demand for the tile industry and accordingly the revenue growth in FY2017 and H1FY2018 for the company was modest at 7% and 4% respectively. The growth trajectory for tile industry is likely to remain moderate in near term. Any further moderation in demand, especially from the real estate sector, may result in pricing pressure and low off-take for various manufacturers, including AGL. AGL, however, on account of its relatively stronger retail presence and branding as compared to unorganised players, should be able to mitigate this risk to some extent.

High working capital intensity of operations – The working capital intensity for the company has remained high in the past and it increased for FY2017 as reflected in NWC/OI of ~34%, because of increase in debtor days as well as inventory levels. The overall working capital intensity of the company further increased in H1 FY2018, with implementation of GST at a higher tax slab of 28% in initial phase. This led to an increase in receivables and overall working capital intensity by ~3-4%. Nevertheless, the reduction in GST rate to 18% from mid November and efforts of management for faster recovery of receivables is likely to improve the overall working capital intensity in the coming quarters.

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 fuels as the combination of these two categories forms a major part of the cost structure. However, in the past AGL has been able to pass on any increase in raw material and power and fuel costs to a large extent to its customers as reflected by growth in realisations.

Analytical approach - While arriving at the ratings, ICRA has consolidated business and financial risk profile of Asian Granito India Limited, Amazoone Ceramics Limited (subsidiary of AGL, with 94.2% of holding), and Crystal Ceramic Industries Private Limited (step-down subsidiary of AGL, with 70% of holding through Kedia Ceramics).

Links to applicable criteria-

Corporate Credit Rating Methodology
Impact of Parent or Group Support on an Issuer's Credit Rating

About the company:

Asian Granito India Limited (AGL) was incorporated in 2002 as a manufacturer of ceramic tiles, by Mr Kamlesh Patel and Mr. Mukesh Patel. The company has extended production capacities as well as the product range over the years and is a leading ceramic player today engaged in manufacturing and marketing of flooring solutions under its brand name 'AGL'. The product range includes wall tiles, vitrified tiles, ceramic floor tiles, marble and quartz. AGL has eight manufacturing facilities (including two facilities of subsidiaries) located in the state of Gujarat. With acquisitions and expansions carried out both in-house and in subsidiaries, the total tile manufacturing capacity of the company has increased to ~36 million square meters (msm) on a consolidated basis.

At standalone level, AGL reported an operating income of Rs 949.88 crore and PAT of Rs. 27.95 crore in FY2017 as against an operating income of Rs 872.98 crore and PAT of Rs. 18.93 in FY2016. At consolidated levels, AGL reported an operating income of Rs 1065.95 crore and PAT of Rs. 39.81 crore in FY2017.

Key financial indicators

	FY2016	FY2017	FY2016	FY2017
	Standalone		Consolidated	
Operating Income (Rs. crore)	872.98	949.88	993.90	1065.95
PAT (Rs. crore)	18.93	27.97	23.74	39.81
OPBDIT/ OI (%)	8.02%	8.34%	9.14%	11.59%
Total Debt/ TNW (times)	0.53	0.43	0.93	0.87
Total Debt/ OPBDIT (times)	2.51	2.01	3.69	2.85
Interest Coverage (times)	2.95	3.68	3.12	3.13
NWC/ OI (%)	27%	25%	30%	33%

Source: Audited annual financials of the company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating January 2018	Date & Rating in FY2018 October 2017	Date & Rating in FY2018 September 2017	Date & Rating in FY2017 February 2017
1	Cash Credit	Long Term	200.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Term Loans	Long Term	24.00	23.24	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Short Term Non Fund Based	Short Term	70.84	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Unallocated	Long Term	17.16	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
5	Commercial Paper	Short Term	40.00	40.00	[ICRA]A1+ (SO)	[ICRA]A1+ (SO)	Provisional [ICRA]A1+ (SO)	[ICRA]A1+ (SO)

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.in

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	NA	NA	NA	200.00	[ICRA]A (Stable)
NA	Term Loan	April 2017	NA	FY2022	24.00	[ICRA]A (Stable)
NA	Short Term Non Fund Based	NA	NA	NA	70.84	[ICRA]A1
NA	Unallocated limits	NA	NA	NA	17.16	[ICRA]A (Stable)
NA	Commercial Paper	October 2017	NA	7-365 Days	40.00	[ICRA]A1+ (SO)

Source: Sanction letter of Asian Granito India Limited

ANALYST CONTACTS

Mr. K.Ravichandran
+91-44-4596-4301
ravichandran@icraindia.com

Ankit Patel
+91 079 4027 1509
ankit.patel@icraindia.com

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

Helpline for business queries:

+91-124-2866928 (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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999