Asian Granito India Limited

March 23, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	40.00	40.00	[ICRA]A1+ (SO); Withdrawn
Long-term Fund-based Term Loan	15.00	15.00	[ICRA]A (Stable); Outstanding
Long-term Fund-based Cash Credit	200.00	200.00	[ICRA]A (Stable); Outstanding
Unallocated Limits	36.16	36.16	[ICRA]A (Stable); Outstanding
Short-term Non Fund-based limits	60.84	60.84	[ICRA]A2; Outstanding
Total	**312.00**	**312.00**	

Rating action

ICRA has withdrawn the rating of [ICRA]A1+ (SO) (pronounced ICRA A one plus, Structured Obligation)[1], outstanding on the commercial paper programme of Rs. 40.00 crore[2] of Asian Granito India Limited (AGL). The aforementioned rating was based on standby letter to the extent of Rs. 20.00 crore each from State Bank of India and IndusInd Bank to support the repayment obligation on the said CP programme.

Rationale

The rating assigned to commercial paper programme of Asian Granito India Limited has been withdrawn, as the instrument was fully redeemed on maturity date and the validity of standby letters have also expired.

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.

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

[2] *100 lakh = 1 crore = 10 million*

Key rating drivers

Credit strengths

Extensive experience of promoters and established brand presence in the Indian tile industry - AGL was incorporated in 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 organised players is expected to be close to ~40%. The company also enjoys a widespread distribution network, which enhances its market presence.

Focus on value added products supported the improvement in profit margins – The product portfolio of the company remains well diversified, comprising the entire basket of tile offerings covering a wide range of wall/flooring solutions. Strong focus on value added products in the tile segment and expansion of its product range in marble and quartz segments have resulted in improvement in realisations and profit margins. 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 the Crystal Ceramic plant, against the market rate of Rs. 28-29 per scm for the other units of AGL and players based in 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 remains healthy, marked by strong net-worth base of ~Rs. 427 crore and gearing of 0.8 time as on September 30, 2017, at a 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 the absence of any major debt funded capex in the near term.

Credit challenges

Intense competition - The tile industry continues to remain competitive with both large and organised players as well as numerous small-scale tile manufacturers. Slowdown in the real estate sector, demonetisation and GST have impacted the overall demand for the tile industry and accordingly the revenue growth in FY2017 and H1 FY2018 was modest at 7% and 4%, respectively. The growth trajectory for the tile industry is likely to remain moderate in the 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, should be able to mitigate this risk to some extent because of its relatively stronger retail presence and branding as compared to unorganised players.

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 by NWC/OI of ~34%, because of increase in debtor days and inventory levels. The overall working capital intensity further increased in H1 FY2018, with implementation of GST at a higher tax slab of 28% in the 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 the management for faster recovery of receivables are 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 form a major part of the cost structure. However, AGL has usually been able to pass on any increase in raw material, and power and fuel costs to its customers as reflected by growth in realisations.

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

Links to applicable criteria:

Corporate Credit Rating Methodology
ICRA's Policy on Withdrawal and Suspension of Credit Rating
Impact of Parent or Group Support on an Issuer's Credit Rating

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 extended its production capacities as well as product range over the years, and today is a leading ceramic player engaged in 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 eight manufacturing facilities (including two facilities of subsidiaries) in Gujarat. With acquisitions and expansions carried out in-house as well as in its subsidiaries, the total tile manufacturing capacity of the company has increased to ~36 million square meters (msm) on a consolidated basis.

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%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating March 2018		Date & Rating in FY2018 January 2018	Date & Rating in FY2018 October 2017	Date & Rating in FY2018 September 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	15.00	14.29	**[ICRA]A (Stable)**		**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**
3	Short Term Non Fund Based	Short Term	60.84	-	**[ICRA]A1**		**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**
4	Unallocated	Long Term	36.16	-	**[ICRA]A (Stable)**		**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**
5	Commercial Paper	Short Term	40.00	-	**[ICRA]A1+ (SO); Withdrawn**		**[ICRA]A1+ (SO)**	**[ICRA]A1+ (SO)**	**Provisional [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	15.00	[ICRA]A (Stable)
NA	Unallocated Amount	NA	NA	NA	60.84	[ICRA]A (Stable)
NA	Short Term Non Fund Based	NA	NA	NA	36.16	[ICRA]A1
NA	Commercial Paper	NA	NA	NA	40.00	[ICRA]A1+ (SO); withdrawn

Source: Asian Granito India Limited

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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.

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