Asian Granito India Limited

May 25, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Long-term Fund-based Term Loan	24.00	24.00	[ICRA]A (Stable)
Long-term Fund-based Cash Credit	200.00	200.00	[ICRA]A (Stable)
Unallocated Limits	17.16	17.16	[ICRA]A (Stable)
Short-term Non-fund-based limits	70.84	70.84	[ICRA]A1
Total	**312.00**	**312.00**	

Rating action

ICRA has ratings outstanding of [ICRA]A (pronounced ICRA A) on the Rs. 24-crore[1] term loans, the Rs. 200.00-crore cash credit facility and the Rs. 17.16-crore unallocated limits of Asian Granito India Limited (AGL or the company)[2]. ICRA also has an outstanding rating of [ICRA]A1 (pronounced ICRA A one) on the Rs. 70.84-crore short-term non-fund based limits of AGL. The outlook on the long-term rating is Stable.

Rationale

ICRA notes that AGL has extended a corporate guarantee of Rs. 40.30 crore to Camrola Quartz Ltd. (CQL) bank facilities, a JV between AGL and Paramshree Granito Limited, with holding of former at 51%. CQL was set up as a greenfield project in September 2017, to manufacture quartz slabs from its facility located in Prantij, Gujarat. The total cost of the project is Rs. 39.09 crore, which is to be funded through equity of Rs. 14.29 crore and a term loan of Rs. 24.80 crore. The commercial operation of the unit is expected to commence from July 2018. ICRA has considered that the above support to CQL will not significantly impact AGL's financial risk profile and the adjusted debt coverage indicators would remain within the expected levels for this rating category. The rating also factors in an improvement in debt coverage indicators for FY2018, supported by the sustained improvement in profit margins and internal accruals in FY2018 at consolidated levels. This has been aided by the increased contribution of value-added products in the tiles segment, with the newly commissioned capacity of double-charged vitrified tiles and glazed vitrified tiles in Crystal Ceramics Private Limited (Crystal Ceramics) during FY2017 and expansion of the product range into the high margin marble/quartz segments (commissioning of new line from April 2017 in AGL).

Rating concerns arise from the highly competitive nature of the tile industry, marked by both large organised players as well as numerous small-scale tile manufacturers (centred largely around Morbi, Gujarat) and high working capital intensity of operations, which together result in moderate return indicators and vulnerability of profit margins to rise in input costs, especially power and gas. Slowdown in the real estate sector, demonetisation and implementation of the Goods and Services Tax (GST) curtailed growth in FY2017. Moreover, the demand slowdown is likely to continue in the near term with the growth trajectory likely to remain in the single digit for FY2018 as well. Nonetheless, its rising presence in export markets, the expansion of its product range, capacity enhancement through JVs, established distribution network and further strengthening of brand equity with aggressive marketing initiatives are expected to support business performance

[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*

growth in the medium to longer run. The company's ability to increase its scale and profitability, amid competitive pressures and demand slowdown, to improve its working capital cycle as well as the 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 a 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 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 supports 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 the 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 (at present at Rs. 8-9 per standard cubic metre) 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 11.9% in FY2017 and further to ~12% in FY2018.

Healthy financial risk profile – The financial risk profile remains healthy, marked by a strong net-worth base of ~Rs. 431.5 crore and gearing of 0.7 time as on March 31, 2018, at a consolidated level. The debt protection metrics improved in FY2017 and FY2018, with interest coverage at 3.8 times and TD/OPBDITA at 2.3 times for FY2018. ICRA expects an improvement in the capital structure and debt protection metrics in FY2019 on the back of expanding profit margins, healthy accruals and scheduled debt repayments. The overall liquidity position of the company remains comfortable, on the back of healthy accruals corresponding to debt obligations and undrawn line of credits.

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 FY2018 was modest at 7% and 9%, 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 offtake 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 FY2018 as reflected by NWC/OI of ~30%, because of high debtor days and inventory levels.

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 categories contribute to a major part of the cost structure.

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), Crystal Ceramic Industries Private Limited (step-down subsidiary of AGL, with 70% holding through Kedia Ceramics) and Camrola Quartz Ltd. (subsidiary of AGL, with 51% holding).

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 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, 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 metres (msm) on a consolidated basis.

At a consolidated level, AGL reported an operating income of Rs. 1155.6 crore and PAT of Rs. 54.4 crore in FY2018 as against an operating income of Rs. 1063.9 crore and PAT of Rs. 47.9 crore in FY2017.

Key financial indicators – Consolidated

	FY2017	FY2018
Operating Income (Rs. crore)	1064	1155
PAT (Rs. crore)	139	127
OPBDIT/ OI (%)	11.9%	12.0%
Total Debt/ TNW (times)	0.8	0.8
Total Debt/ OPBDIT (times)	2.5	2.3
Interest Coverage (times)	3.2	3.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating May 2018	Date & Rating March 2018	Date & Rating January 2018	Date & Rating in FY2018 October 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	-	-	**[ICRA]A1 (SO); withdrawn**	**[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	Unallocated Amount	NA	NA	NA	17.16	[ICRA]A (Stable)
NA	Short Term Non Fund Based	NA	NA	NA	70.84	[ICRA]A1

Source: Sanction letter of 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.

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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