Asian Granito India Limited

December 05, 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	14.29	[ICRA]A reaffirmed; Outlook revised to Negative from Stable
Long-term Fund-based Cash Credit	200.00	220.00	[ICRA]A reaffirmed; Outlook revised to Negative from Stable
Unallocated Limits	17.16	11.87	[ICRA]A reaffirmed; Outlook revised to Negative from Stable
Short-term Non-fund-based limits	70.84	65.84	[ICRA]A1 reaffirmed
Total	**312.00**	**312.00**	

Rationale

The revision in outlook takes into consideration the decline in profit margins in H1FY2019 and the deterioration in debt coverage indicators at a consolidated level. Over the last two quarters, the increase in gas price, following the sharp rise in crude oil prices, and the fall in average realisations due to intense competition, eroded the profit margin of tile players in H1FY2019. This coupled with the high employee cost (~32%) in H1FY2019 on YoY basis, following expectation of sales growth, has impacted the company's earnings for the period. As compared to the operating margin of ~13.6% that the company reported in H1FY2018, the operating margin declined to 7.5% in H1FY2019. ICRA believes the pressure on margins will continue in the near term with increase in industry competition, compounded by the company's limited to pass on the cost pressure to customers.

The industry headwinds are off-set to some extent by AGL's strong position in the industry with sustained volume growth and adequate liquidity position, with free cash and liquid investment to the tune of ~Rs. 18 crore and undrawn line of credit of about Rs. 50-60 crore as on September 2018. ICRA has also taken into account the company's plan for preferential allotment to the tune of Rs. 98 crore to non-promoter group over the next 12-18 months, which will support the liquidity and debt coverage indicators. Further, the ratings continue to factor in AGL's strong brand presence and established market position in the domestic tiles industry, its wide product range, and healthy financial risk profile, marked by comfortable capital structure and adequate liquidity position. The ratings are, however, constrained by the intense industry competition, marked by the presence of large organised players as well as numerous small-scale tile manufacturers, the cyclicality associated with the real estate sector and the company's working capital intensive operations. Going forward, the company's ability to expand and stabilise its operating margins, scale-up its business while improving its working capital intensity and debt protection metrics would remain a key rating sensitivity.

Outlook: Negative

The 'Negative' outlook factors in the possibility of lower than expected performance in terms of profitability and cash flows in subsequent quarters. The outlook may be revised to Stable if sustained volume growth, improvement in profitability, and better working capital management, strengthen the financial risk profile. The ratings may be downgraded if profitability declines further resulting in lower than expected cash accruals, delay in planned preferential allotment 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 Indian tile industry - AGL was incorporated in 2002 and its promoters have experience of over two decades in the tile industry. Thus, the promoters' long experience in the industry, the company's established relationship with suppliers and customers, and the wide 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 has a widespread distribution network, which enhances its market presence.

Wide product range with sustained volume growth – The product portfolio of the company remains well diversified, comprising the entire basket of tile offerings and covering a wide range of wall/flooring solutions. The dealer/distributor network of the Group increased over the period, with 6000 dealer/sub-dealers and 241 exclusive showrooms pan-India. Over the year, the sales in retail segment has increased and stood at ~39% of the total sales in FY2018 as against ~37% in FY2017. Further, the aggressive marketing initiatives and the expansion of distribution network have supported the volume growth. The volume grew by ~25% in FY2018 and ~15% in H1FY2019, leading to revenue growth of ~9% and ~4% in FY2018 and H1FY2019, respectively, on YoY basis.

Healthy financial risk profile – The financial risk profile remains healthy, marked by a strong net worth base of ~Rs. 437 crore, gearing of 0.7 time as on September 30, 2018, at a consolidated level, and adequate liquidity position. Further, the proposed equity infusion plan of Rs. 80-100 crore over the next 12 months will improve the net worth base and capital structure going forward.

Credit challenges

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 components contribute to a major part of the cost structure. Over the last two quarters, the increase in gas price, following the sharp increase in crude oil prices, and the pressure on realisation due to intense competition have resulted in a dip in profit margins of tile players in H1FY2019. The operating margin declined to 7.5% in H1FY2019 from 13.6% in H1FY2018, thereby deteriorating the debt protection metrics. Correspondingly, the debt coverage indicators weakened—interest coverage was 2.6 times and Total Debt/OPBDITA was 4.46 times in H1FY2019 as against the interest coverage of 3.6 times and Total Debt/OPBDITA at 2.4 times for FY2018.

Intense competition following substantial capacity additions even as demand growth is slow – The ceramic tiles industry is intensely competitive, with many small and large players. Additionally, the industry is fragmented and dominated by the unorganised sector. Although AGL is one of the leading players in the ceramic tiles industry in India, the company faces significant competition from reputed players such as Kajaria Ceramics Ltd, Somany Ceramic Limited, H&R Johnson (India) (a division of Prism Cement Ltd), Somany Ceramic Limited and Orient Bell Ltd. The competition intensified in the recent past because of significant capacity addition (~100 new units in Morbi region) in the last two fiscals and low demand with continued slowdown in reals estate sector, which dented the average realisation of the company by ~20% in the last four quarters. Intense competition restricts the profitability, given the limited pricing flexibility.

High working capital intensity of operations – The working capital intensity for the company has remained high as reflected by NWC/OI of ~30-32% in FY2018 and H1FY2019, because of high receivables (~120 days as on September 2018) and inventory levels (~127 days). AGL normally provides an average credit period of up to 90 days to its customers and receives a 90-120 days credit period from its suppliers. The company maintains about 45-60 days of raw material and packing materials inventory and about 60 days of finished goods inventory (of various size and designs) in order to service any immediate requirement, resulting in high overall inventory days.

Liquidity Position:

Cash flow from operations and free cash flows remained positive in FY2018 on the back of healthy profitability. The free cash flows, however, turned negative in H1FY2019 due to reduction in profitability and outgo towards capex. The liquidity position of the company remains adequate marked by sufficient cash accruals against debt obligations, free cash and liquid investment of ~Rs. 19 crore and undrawn line of credit of ~Rs. 50 crore as on September 2018. Besides this, the market value of investments in quoted equity instruments (associate concern, Astron Paper & Board Mill Ltd.) is about ~Rs. 95 crore as on November 22, 2018. AGL holds ~18.87% stake in Astron Paper & Board Mill Ltd. as a promoter Group. The lock-in period for these investments expires in December 2018. Moreover, the company's plan for preferential allotment to the tune of Rs. 98 crore over the next 12-18 months will support the overall liquidity position going forward.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	While arriving at the ratings, ICRA has considered the consolidated financials of Asian Granito India Limited. As on March 31, 2018 Company had 4 subsidiary, 2 step-down subsidiary, 1 associate concern and 1 JV.

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 expanded 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.

Key financial indicators (audited)

	Standalone		Consolidated	
	FY2017	FY2018	FY2017	FY2018
Operating Income (Rs. crore)	946	1005	1064	1156
PAT (Rs. crore)	32	33	48	54
OPBDIT/ OI (%)	8.4%	8.5%	11.7%	12.1%
Total Debt/ TNW (times)	0.4	0.4	0.8	0.7
Total Debt/ OPBDIT (times)	2.0	1.9	2.7	2.4
Interest Coverage (times)	3.3	4.0	3.0	3.6

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 December 2018	Date & Rating August 2018	Date & Rating May 2018	Date & Rating March 2018
1	Cash Credit	Long Term	220.0	-	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Term Loans	Long Term	14.29	14.29	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Short-term Non-fund Based	Short Term	65.84	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Unallocated	Long Term	11.87	-	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
5	Commercial Paper	Short Term	40.00	-	-	-	-	[ICRA]A1 (SO); withdrawn

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	220.00	[ICRA]A (Negative)
NA	Term Loan	April 2017	NA	FY2022	14.29	[ICRA]A (Negative)
NA	Unallocated Amount	NA	NA	NA	11.87	[ICRA]A (Negative)
NA	Short-term Non-fund Based	NA	NA	NA	65.84	[ICRA]A1

Source: Sanction letter of Asian Granito India Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
AGL Industries Limited	100.00%	Full Consolidation
Powergrace Industries Limited	100.00%	Full Consolidation
Trodo Ceramics Private Limited	100.00%	Full Consolidation
Crystal Ceramic Industries Private Limited	70.00%	Full Consolidation
Amazoone Ceramics Limited	94.80%	Full Consolidation
Camrola Quartz Limited	51.00%	Full Consolidation
Astron Paper & Board Mill Limited	18.87%	Equity Method

ICRA

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About ICRA Limited:

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