January 06, 2020

Asian Granito India Limited: Ratings reaffirmed; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Long-term Fund-based Term Loan	14.29	15.44	[ICRA]A reaffirmed; Outlook revised to Stable from Negative
Long-term Fund-based Cash Credit	220.00	170.00	[ICRA]A reaffirmed; Outlook revised to Stable from Negative
Unallocated Limits	11.87	8.29	[ICRA]A reaffirmed; Outlook revised to Stable from Negative
Short-term Non-fund-based limits	65.84	68.27	[ICRA]A1 reaffirmed
Total	**312.00**	**262.00**	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook considers the expected improvement in financial profile of the AGL Group in FY2020, owing to healthy sales growth and improvement in operating profitability. During H1 FY2020, AGL reported healthy sales growth of ~28% on YoY due to robust volume growth in marble and quartz segment. The operating margins improved to ~9.8% in H1 FY2020 from ~7.5% in H1 FY2019 (~7.2% for full year FY2019) on the back of increased contribution of margin-accretive segment and decline in power and fuel cost supported by softening in gas prices. Further, AGL is in the midst of plans to raise equity to the tune of ~Rs. 85 crore through preferential allotment to promoter and non-promoter group, which will support the liquidity and debt coverage indicators. It has already raised equity of ~Rs. 21 crore in September 2019 and the balance amount will be brought in by March 2021. ICRA believes, at the consolidated level, AGL's sales are expected to grow by ~10% and the OPM levels are likely to improve to ~9% in FY2020 compared to almost flat revenue growth in FY2019 and OPM of ~7% in FY2019. Going forward, proposed equity raising, coupled with expected improvement in profitability will lead to an improvement in the Group's capital structure and debt coverage metrics.

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 as well as its healthy financial risk profile marked by comfortable capital structure and adequate liquidity position. The ratings are, however, constrained by the intense industry competition with the presence of a few 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. The ratings are constrained on account of the susceptibility of its profitability to fluctuations in key raw material and gas prices.

Key rating drivers and their description

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' extensive experience in the industry, the company's established relationship with suppliers and customers, besides its 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 has a widespread distribution network, which enhances its market presence.

Wide product range with sustained volume growth – The company's product portfolio 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 6500 dealer/sub-dealers and 302 exclusive showrooms pan-India. Further, the aggressive marketing initiatives and the expansion of distribution network have supported the volume growth over the years. While volume growth in the tile segment continued to remain modest in H1 FY2020, the sales volume of marble and quartz segment grew at a robust rate leading to healthy revenue growth of ~28% in H1 FY2020 on YoY. The sales from marble and quartz increased to Rs. 181 crorei in H1 FY2020 from ~Rs. 68 crore in H1 FY2019, following healthy export demand.
The increased contribution of high-margin marble and quartz segment to total sales, coupled with decline in overall power and fuel expense resulted in improvement in profit margins. The operating margins improved to ~9.8% in H1 FY2020 from ~7.2% in FY2019.

Above average financial risk profile – The financial risk profile remains above average, marked by a strong net worth base of ~Rs. 502 crore, gearing of 0.7 times as on September 30, 2019 at the consolidated level and an adequate liquidity position. Further, the ongoing equity raising plan of ~Rs. 85 crore over FY2020 and FY2021, coupled with improvement in profit margins will improve the capital structure and debt protection metrics going forward. The Group is estimated to have a gearing of ~0.6 times, interest coverage ~3.5-4.0 times and leveraging (TD/OPBDITA) of ~2.5-2.7 times for FY2020-FY2021.

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. In FY2019, the increase in gas price, following the sharp increase in crude oil prices and the pressure on realisation due to intense competition resulted in a dip in profit margins of tile players. The operating margin declined to 7.2% in FY2019 from 11.9% in FY2018. Nevertheless, the OPM improved to ~9.8% in H1 FY2020 with increased contribution from margin-accretive segments and reduction in fuel cost. The power and fuel cost, which accounted for ~14% of total sales in FY2019 compared to ~12% in FY2018, stood lower at ~10.4% in H1 FY2020.

Intense competition and vulnerability to cyclicality in end-user industry – 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) and Orient Bell Ltd. The competition intensified in the recent past because of significant capacity addition over FY2017-FY2018 and moderation in demand with continued slowdown in the real estate sector, which dented the tile realisation of the company by ~10-15% in FY2019. Intense competition restricts the profitability, given the limited pricing flexibility.

High working capital intensity of operations – The company's working capital intensity remained high as reflected by NWC/OI of ~30% in the past, because of high receivables(~120 days as of March 2019) and inventory levels (~110 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. It 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: Adequate

The Group's liquidity position remains adequate as indicated by sufficient estimated annual cash accruals of Rs. 69-74 crore as against debt repayments of Rs. 23-26 crore over FY2020-2021, free cash and bank and liquid investment of ~Rs. 25 crore as of September 2019 and moderately high average utilisation of working capital limits (~85% for the period January 2019 to October 2019). Besides this, AGL raised equity of Rs. 21 crore in September 2019 and balance equity of ~Rs. 64 crore will be raised over the next 12 months, which will further support its liquidity position.

Rating sensitivities

Positive triggers – Healthy scale up of operations on sustained basis coupled with expansion in profit margins at consolidated level, along with improvement in working capital cycle leading to improved liquidity may result in a rating upgrade. Moreover, TD/OBDITA of 2 times or low and interest coverage of 5 times or above at the consolidated level on a sustained basis may trigger a rating upgrade.

Negative triggers – Downward pressure on the ratings might arise if there is a significant decline in scale or deterioration in profit margins leading to deterioration in key credit metrics (TD/OPBDITA of 3.5 times or above and interest coverage of 3 times or below on sustained basis). Moreover, any significant delay in equity infusion (proposed timeline for infusion is by March 2021) or a large debt-funded capex or stretch in working capital cycle, which weakens the Group's liquidity profile may necessitate negative pressure on the ratings.

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, 2019 Company had 5subsidiaryand 1 associate concern.

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 ten manufacturing facilities (including three facilities of subsidiaries) in Gujarat. With acquisitions and expansions carried out in-house as well as in its subsidiaries, its total tile manufacturing capacity has increased to ~36 million square metres (msm) on a consolidated basis.

Key financial indicators

	Audited		Unaudited	Audited		Unaudited
	Standalone			Consolidated		
	FY2018	FY2019	H1 FY2020	FY2018	FY2019	H1 FY2020
Operating Income (Rs. crore)	1,005	1,005	541	1,171	1,187	671
PAT (Rs. crore)	33	7	15	54	19	26
OPBDIT/ OI (%)	8.5%	4.1%	6.1%	11.9%	7.2%	9.8%
RoCE (%)	13.4%	5.5%	9.1%	15.0%	7.8%	11.3%
Total Debt/ TNW (times)	0.4	0.4	0.4	0.73	0.7	0.7
Total Debt/ OPBDIT (times)	1.9	3.9	2.4	2.4	4.2	2.7
Interest Coverage (times)	4.0	2.2	3.6	3.6	2.3	3.8
DSCR (times)	2.7		-	2.4	1.5	-

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)						Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding as on October 31, 2019	Rating	FY2019					FY2018	FY2017
					06-Jan-2020	28-Jan-2019	11-Jan-2019	05-Dec-2018	28-Aug-2018	25-May-2018	09-Jan-2018	28-Oct-2016
1	Cash Credit	Long Term	170.0	-	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Term Loans	Long Term	15.44	8.01	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Short-term Non-fund Based	Short Term	68.27	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
2	Unallocated Limits	Long Term	8.29	-	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Commercial Paper	Short Term	40.00	-	-	-					[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	170.00	[ICRA]A (Stable)
NA	Term Loan	FY2017	NA	FY2024	15.44	[ICRA]A (Stable)
NA	Unallocated Amount	NA	NA	NA	8.29	[ICRA]A (Stable)
NA	Short-term Non-fund Based	NA	NA	NA	68.27	[ICRA]A1

Source: Sanction letter of Asian Granito India Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Type	Ownership	Consolidation Approach
AGL Industries Limited	Subsidiary	100.00%	Full Consolidation
Powergrace Industries Limited	Step-down Subsidiary	100.00%	Full Consolidation
Crystal Ceramic Industries Private Limited	Subsidiary	70.00%	Full Consolidation
Amazoone Ceramics Limited	Subsidiary	95.32%	Full Consolidation
Camrola Quartz Limited	Subsidiary	51.00%	Full Consolidation
Astron Paper & Board Mill Limited	Associate	18.87%	Equity Method

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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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