June 08, 2020

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Long-term Fund-based Term Loan	15.44	15.44	[ICRA]A reaffirmed; Outlook revised to Negative from Stable
Long-term Fund-based Cash Credit	170.00	170.00	[ICRA]A reaffirmed; Outlook revised to Negative from Stable
Unallocated Limits	8.29	4.29	[ICRA]A reaffirmed; Outlook revised to Negative from Stable
Short-term Non-fund-based limits	68.27	72.27	[ICRA]A1 reaffirmed
Total	**262.00**	**262.00**	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook considers the expected worsening of the already muted domestic tiles demand, following negative impact on its end consumer, the real estate sector, given the expected slowdown in under construction project and new launches. The Covid-19 pandemic and the unprecedented nationwide lockdown, while being an unexpected negative event, has disrupted production and supply chain across tile manufacturers from March 2020 onwards. The replacement demand is also expected to remain sluggish because of weak consumer sentiments. Demand recovery is expected to be gradual as the earnings of consumers have been impeded and because tile is a discretionary item, domestic sales volumes and profitability are likely to be adversely impacted in FY2021. ICRA believes that AGL's large scale of operations, brand recall and strong market presence in comparison to the smaller players will support its ability to garner sales as the economy recovers. The pace of recovery would be monitorable.

At present, AGL's liquidity is supported by buffer available in the form of unutilised working capital limits of approximately Rs. 22 crore at the consolidated level as of March 31, 2020. The company has also availed a moratorium on debt servicing and has applied for an additional working capital of Rs. 22 crore at a consolidated level, under the RBI forbearance scheme, in order to keep liquidity buffer. While the liquidity buffer appears adequate in the light of the current cost obligations, including salaries and other fixed costs, a prolonged demand slowdown could deplete this buffer. Further, AGL will be raising balance equity of ~Rs. 64 crore by March 2021 (Rs. ~21 crore raised in FY2020) against preferential equity allotment to promoter and non-promoter group, which will support the liquidity and debt metrics. ICRA will continue to monitor the situation as it evolves and assess its impact on the credit profile of the Group.

The above concerns notwithstanding, the rating continues to draw comfort from AGL's brand presence and established market position in the domestic tiles industry, its wide product range, and a strong dealers/distributors network across India. The ratings also consider the above average financial risk profile, marked by a comfortable capital structure with a gearing of 0.7 times and a net worth base of Rs. 502 crore as on September 30, 2019.

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 and the cyclicality associated with the real estate sector. The ratings are also constrained by the Group's working capital intensive operations and the susceptibility of its profitability to fluctuations in key raw material and gas prices. Going forward, the company's ability to expand and stabilise its operating margins, scale-up its operations while improving its working capital intensity would remain a key rating sensitivity.

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; near-term revenue visibility remains muted – The company's product portfolio remains well diversified, comprising the entire basket of tile offerings and covering a wide range of wall/flooring solutions and sanitary ware products. The dealer/distributor network of the Group increased over the period, with 6500 dealer/sub-dealers and 302 exclusive showrooms pan-India. While volume growth in the tile segment continued to be modest in 9MFY2020, the sales volume of marble and quartz segment grew at a robust rate, leading to healthy revenue growth of ~18% in 9MFY2020 on YoY. The sales from marble and quartz increased to Rs. 229 crore in 9MFY2020 from ~Rs. 126 crore in 9MFY2019, following healthy export demand. The increased contribution of high-margin marble and quartz segment to the total sales, coupled with a decline in overall power and fuel expense, improved the profit margins. The operating margin improved to ~10% in 9MFY2020 from ~7.2% in FY2019. Following the Covid-19 pandemic, ICRA expects the overall tiles demand to remain significantly lower, at least in H1FY2021, posing in profitability and growth challenge to the Group in FY2021.

Above-average financial risk profile; expected moderation in debt coverage metrics in FY2021 - 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 and interest coverage of ~3.8 times for H1FY2020 at the consolidated level. However, the expected decline in sales and profitability is likely to weaken the coverage metrics in FY2021. Nevertheless, the ongoing equity raising plan of ~Rs. 64 crore, extension of moratorium, and additional COVID lines of credit are expected to support the liquidity position going forward.

Credit challenges

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 overall tile realisation of the company. Going forward as well, AGL's sales and profitability remain vulnerable to weak demand prospects from the real estate industry, exacerbated by delayed revival amid the Covid-19 pandemic.

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 the past, increases in gas price, following a sharp spike in crude oil prices, has resulted in a dip in profit margins of tile players as intense competition in the sector restricts the ability to pass-through cost increases with immediate effect.

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, primarily supported by unutilised working capital limits of Rs. 22 crore as on March 31, 2020. The Group has also availed a moratorium on debt servicing and has applied for an additional working capital of Rs. 22 crore under the RBI forbearance scheme, in order to keep liquidity buffer. Besides this, AGL raised equity of Rs. 21 crore in September 2019; and the balance equity of ~Rs. 64 crore will be raised against preferential allotment by March 2021, which will further support its liquidity position.

Rating sensitivities

Positive triggers – Sustained improvement in operational metrices and profit margins, coupled with successful equity raising, leading to improvement in leverage and liquidity, could be a trigger for a change in outlook.

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 a negative rating action.

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, the company had five subsidiaries and one 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 it is a leading ceramic player, providing 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 increased to ~36 million square metres (mn sqmt) 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 (FY2021)				Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding as on October 31, 2019	Rating	FY2020	FY2019				FY2018
					08-Jun-2020	6-Jan-2020	28-Jan-2019	05-Dec-2018	28-Aug-2018	25-May-2018	09-Jan-2018
1	Cash Credit	Long Term	170.0	-	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Term Loans	Long Term	15.44	8.01	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Short-term Non-fund Based	Short Term	72.27	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
2	Unallocated Limits	Long Term	4.29	-	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Commercial Paper	Short Term	40.00	-	-	-					[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 (Negative)
NA	Term Loan	FY2017	NA	FY2024	15.44	[ICRA]A (Negative)
NA	Unallocated Amount	NA	NA	NA	4.29	[ICRA]A (Negative)
NA	Short-term Non-fund Based	NA	NA	NA	72.27	[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

ANALYST CONTACTS

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

Ankit Patel
+91 79 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
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (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.

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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) 2556 0194/ 6606 9999