

October 10, 2017

BVL Granites

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	30.00	[ICRA]BB(Stable); Reaffirmed
Term Loan	2.50 (revised from Rs. 19.00 crore)	[ICRA]BB(Stable); Reaffirmed
Non-fund Based Limits	1.00	[ICRA]A4; Reaffirmed
Unallocated Limits	16.50	[ICRA]BB(Stable)/[ICRA]A4; Reaffirmed
Total	50.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB (pronounced ICRA Double B) to the Rs. 30.00-crore fund-based facilities and Rs. 2.50-crore term loan and the short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 1.00-crore non-fund based facilities of BVL Granites (BVL). The outlook on the long-term rating is Stable. ICRA has also reaffirmed the ratings of [ICRA]BB (Stable)/[ICRA]A4 to the Rs. 16.50-crore unallocated limits of BVL.

Rationale

The ratings reaffirmation continues to take into consideration the extensive experience of BVL's promoters in the granite processing industry and the direct export model followed by the company (eliminating third-party dealers) which augurs well for its profitability. ICRA also notes that backward integration into quarries under BVL and its associate companies eases raw material procurement for the company to a certain extent, given that around 40% of the raw material is sourced in-house.

The ratings, however, continue to be constrained by the high working-capital intensity of BVL owing to high inventory holding requirements. Furthermore, the overall slowdown in the Indian processed-granite export market owing to increasing competition from other granite-exporting countries like Brazil and China, reduction in orders from key markets such as Turkey and Algeria, and competition from substitute products such as engineered stones has resulted in a revenue decline of 21% year on year (YoY) for the company in FY2017. In addition, the ratings remain affected by the exposure of the company's profitability to fluctuations in foreign exchange given that over 90% of its revenues are derived from exports. The ratings also remain constrained by the inherent risk related to BVL's constitution as a partnership firm and the sensitivity of the granite industry to changes in state government policies.

The ability of the company to achieve stable revenue growth and profitability (despite the slowdown in the industry) as well as effectively manage its working capital requirements remain the key rating sensitivities from a credit perspective.

Key rating drivers

Credit strengths

- **Established track record in processed-granite export industry** – BVL has a track record of over a decade in the processed-granite export industry. The promoters have rich experience in the field and have been able to establish strong relationships with the company's customer base across Europe, Africa, the US and Australia through regular participation in trade fairs etc. Direct export sales made to customers and elimination of third-party dealers continue to boost the company's profitability.
- **Backward integration with presence in quarries eases raw material procurement to a certain extent** – BVL procures granite blocks from its own quarries as well as quarries owned by associate entities. Together, these quarries cater to 30-40% of the company's granite block requirement. This eases raw material procurement of the company to a certain extent, given the intense competition in the Prakasham district, wherein a large number of granite processing players are located.

Credit weaknesses

- **High working-capital intensity of operations** – High inventory holding requirements of the granite-export industry result in high working-capital intensity. This in turn increases the company's dependence on working-capital debt to meet its funding requirements.
- **Vulnerability to foreign exchange fluctuations** – The company also remains vulnerable to foreign exchange fluctuations, given that over 90% of its revenues are derived from export sales.
- **Overall slowdown in the Indian granite-export industry** – The processed-granite export industry in India has been experiencing a slowdown owing to increasing competition from Brazil and China. Also, increasing use of substitute products such as engineered stones has affected the revenue growth of the granite-export industry. Hence, the ability of BVL to maintain a stable revenue growth amid an industry slowdown remains crucial.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Rating Methodology](#)

About the company

BVL was established in the year 2007 as a partnership firm and is into the business of granite quarrying, processing and export. The firm's granite processing facility is located in Ongole, Andhra Pradesh and has a processing capacity of 70,000 sqm.

Key financial indicators

	FY2016	FY2017
Operating Income (Rs. crore)	76.49	61.07
PAT (Rs. crore)	0.64	0.52
OPBDIT/ OI (%)	17.73%	17.76%
RoCE (%)	9.55%	5.94%
Total Debt/TNW (times)	0.85	1.30
Total Debt/OPBDIT (times)	2.52	3.77
Interest Coverage (times)	2.20	3.01
NWC/OI (%)	36.39%	50.87%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years
Table

S. No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month-year & Rating	Month- year & Rating in FY2017	Month- year & Rating in FY2017	Month- year & Rating in FY2015
				October 2017	February 2017	September 2016	May 2015
1	Fund-based Limits	Long Term	30.00	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable) suspended	[ICRA]BB (Stable)
2	Term Loan	Long Term	2.50	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable) suspended	[ICRA]BB (Stable)
2	Non-fund Based Limits	Short Term	1.00	[ICRA]A4	[ICRA]A4	[ICRA]A4 suspended	[ICRA]A4
3	Unallocated Limits	Long Term/ Short Term	16.50	[ICRA]BB (Stable)/ [ICRA]A4			

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**

Instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	30.00	[ICRA]BB(Stable)
Term Loan	2010	-	2017	2.50	[ICRA]BB(Stable)
Non-fund Based Limits	-	-	-	1.00	[ICRA]A4
Long-term/Short-term Unallocated Limits	-	-	-	16.50	[ICRA]BB(Stable)/ [ICRA]A4

Source: BVL

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