

Madhucon Granites Limited

February 12, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Term Loan	82.06	82.06	[ICRA]B-(Stable); Revised from [ICRA]BB+ (Stable)
Short Term - Fund Based	42.57	42.57	[ICRA]A4; Revised from [ICRA]A4+
Short Term - Non-Fund Based	9.10	9.10	[ICRA]A4; Revised from [ICRA]A4+
Total	133.73	133.73	

Rating action

ICRA has downgraded the long-term rating assigned to the Rs. 82.06-crore¹ term loan facility of Madhucon Granites Limited (MGL)² from [ICRA]BB+ (pronounced ICRA double B plus) to [ICRA]B- (pronounced ICRA B minus). ICRA has also downgraded the short-term rating assigned to the Rs. 42.57-crore fund-based and the Rs. 9.10-crore non-fund based facilities of MGL from [ICRA]A4+ (pronounced ICRA A four plus) to [ICRA]A4 (pronounced ICRA A four). The outlook on the long-term rating is Stable.

Rationale

The rating downgrade takes into account the delays in debt servicing by the company in the recent past, on a credit line which is not rated by ICRA. ICRA also takes note of the restructuring of the said credit line that took place on December 15, 2017.

Key rating drivers

Credit strengths

One of the largest granite exporters in the country; long track record of the company's operations and extensive experience of the promoters in the granite quarrying and processing industry - Incorporated in 1994, MGL, a part of Madhucon Group, is currently owned and managed by Mr. N. Krishnaiah and his family. The company is one of the largest granite exporters from the country, contributing to ~29% of the total polished granite export from India during FY2017. With more than two decades of presence, the company benefits from the rich experience of its promoters, its established presence in the export market and the long-standing relationships with the export customers.

Cost advantages stemming from strong raw material linkage through captive quarries which also ensure steady supply of raw-material - The company obtains 70% of its rough blocks requirement from captive quarries which are cut and polished at its processing unit. Thus, unlike other granite manufacturers which procure raw materials at market prices from independent suppliers, MGL enjoys strong raw material linkages which enable it to achieve better margins than other players. The company owns and operates thirteen granite quarries in Tamil Nadu, Andhra Pradesh and Telangana.

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

Healthy operating profitability and robust cash accruals - Given the cost differential enjoyed by the company owing to sourcing of raw material from its own quarries, its operating profitability and cash accruals have remained healthy despite intense competition from both domestic and international players.

Credit weaknesses

Significant financial support to the group companies; MGL has raised substantial debt in its book in the past to meet the funding requirement of the group - The company has extended huge financial support to the group companies through deployment of surplus funds and external debt. MGL has invested in the flagship company of the Group- Madhucon Projects Limited (MPL) which is primarily engaged in the road construction and irrigation projects businesses. MPL along with its subsidiaries has one operational power plant of 600 MW capacity, five BOT road projects of which three are operational toll road projects and two are annuity projects under execution. Poor operational performance of power plant due to absence of long term power purchase agreements and low toll collections on account of the weak traffic flow for the BOT toll road projects has adversely impacted the financial profile of MPL and its subsidiaries which are currently unable to meet their debt servicing obligations in a timely manner.

High working capital intensity of operations - The working capital position of the company is stressed with large inventory holding and stretched export receivables.

Highly fragmented industry resulting in strong competition witnessed from domestic players and also from other granite exporting countries (China and Brazil) – ICRA also takes note of the fragmented nature of the industry and the strong competition faced by the company from both domestic and international granite traders. In recent years, the Indian granite industry has been affected due to rising competition from other granite exporting nations like Brazil and China. The overall Indian exports of polished granite slabs declined at a CAGR of ~15% for the last four years (FY2013 to FY2017) in terms of value.

High geographical concentration risk; vulnerability to foreign exchange fluctuations - Being an export oriented unit, the company derives ~85% of its revenue from the exports, with US contributing to ~41% of the total revenue during FY2017. High concentration in the US market exposes the company to the economic cyclicality in the region. Further, the company's profitability remains vulnerable to foreign exchange fluctuations associated with the exports as the exposure remained un-hedged.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Policy on Default Recognition](#)

About the company:

MGL, a part of Madhucon Group, was incorporated in 1994 as a private limited company and is closely held by the promoters. The company is involved in manufacturing of polished granite slabs. It has one processing unit at Hosur (Tamil Nadu) with an installed capacity of 6.5 lakh sq. mtr. The company also has 13 operational quarries mainly located in Andhra Pradesh, Tamil Nadu and Karnataka. Madhucon Group has diversified interests across industries including construction, granite, coal, sugar and power. MGL has three subsidiaries, namely, Madhucon Sugar and Power Industries Limited (MSPIL), Nama Granites Private Limited (NGPL- not operational) and Nama Holdings Pte Limited (NHPL). MSPIL has a sugar plant in Khammam (Andhra Pradesh) with an installed capacity of 3500 tons of canes per day and a power plant with a capacity of generating 24.2 MW from baggase and coal. MSPIL has also established a distillery unit in 2015 with a capacity of 65 kilo litres per day. NHPL is a Singapore based entity which has in turn invested in the Group's Indonesian entities for the procurement of imported coal; however, the same is currently not operational.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	161.11	162.02
PAT (Rs. crore)	14.47	13.26
OPBDIT/ OI (%)	30.26%	22.97%
RoCE (%)	10.94%	9.78%
Total Debt/ TNW (times)	0.73	0.56
Total Debt/ OPBDIT (times)	3.60	3.79
Interest coverage (times)	2.15	1.93
NWC/ OI (%)	51%	27%

Note: The Company was established in 2010 and they have only one ongoing project Windsor Troika for which they have not started bookings revenues till FY2016.

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		
		Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2017 (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
Instrument	Type			Feb 2018	Sep 2017	-	June 2015
1 Term Loan	Long Term	82.06	74.37	[ICRA]B-(Stable)	[ICRA]BB+(Stable)		[ICRA]BBB-(Suspended)
2 Fund Based Facility	Short Term	42.57		[ICRA]A4	[ICRA]A4+		
3 Non-Fund Based Facility	Short Term	9.10		[ICRA]A4	[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan- 1	Sep 1, 2014	NA	March 31, 2022	38.00	[ICRA]B- (Stable)
NA	Term Loan- 2	Sep 1, 2014	NA	March 31, 2022	42.00	[ICRA]B- (Stable)
NA	Term Loan- 3	FY2014	NA	FY2019	2.06	[ICRA]B- (Stable)
NA	Fund Based Limits		NA		42.57	[ICRA]A4
NA	Non-Fund Based		NA		9.10	[ICRA]A4

Source: MGL

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