

November 24, 2020

## Aequitas Estones Private Limited: [ICRA]BB- (Stable)/ [ICRA]A4 assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based TL	20.00	[ICRA]BB- (Stable); Assigned
Short Term – Fund based	5.00	[ICRA]A4; Assigned
<b>Total</b>	<b>25.00</b>	

\* -Instrument details are provided in Annexure 1

### Rationale

The assigned ratings are constrained by the under-construction status of Aequitas Estones Private Limited's (ASPL) quartz manufacturing facility with commercial operations expected by March 2021. The company has already incurred 75% of the total project cost as on October 30, 2020 and the pending project cost is expected to be funded by promoter funds and undrawn term loan. The rating is also constrained by ASPL's moderate equity mobilisation risk with 79% of the promoter's contribution infused as on October 30, 2020. Additionally, ASPL's revenues are dependent on exports, making it susceptible to the demand situation and regulatory changes in the importing countries. ICRA also notes the vulnerability of revenues to the macroeconomic factors like the performance of the housing real-estate sector in export markets and intense competition from domestic and global players in the quartz surface products industry. The assigned ratings, however, favourably factor in the extensive experience of the promoters in the granite industry, and established distribution network of the Group company, Aequitas Exports Private Ltd. (AEPL, rated ICRA BB-/Stable/A4), which has been manufacturing granite tiles and slabs for the past ten years. Further, ICRA notes rising demand for quartz surface products with increasing application as countertops.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that ASPL will be able to complete the project in a timely manner and witness a healthy ramp-up in operations.

### Key rating drivers and their description

#### Credit strengths

**Experience of promoters in the granite exports business** – The promoters have more than ten years of experience in the granite exports through AEPL, which has 30,000 tonnes of capacity for granite processing. Further, ASPL will be able to market the quartz products through the established distribution network of AEPL. The outlook for quartz exports is favourable with increasing application as countertops, driven by its characteristics such as scratch resistant, durability and cost effective compared to natural stone like granite and marble.

#### Credit challenges

**Quartz manufacturing operations expected to start by March 2021** – The company has already incurred 75% of the total project cost as on October 30, 2020 and the pending project cost is expected to be funded by promoter funds and undrawn term loan. Further, the expected commercial operation date is March 31, 2021 while the term loan repayments will start from March 2022, providing sufficient time for the company to ramp up its operations. However, the future cash flow adequacy of the company would be sensitive to its ability to successfully market its products and thereby ramp up its operations in a competitive industry.

**Moderate equity mobilisation risk** – The company has moderate equity mobilisation risk with 79% of the promoter’s contribution infused as on October 30, 2020. Further, the term loan of Rs. 20.00 crore has already been sanctioned.

**Exposure to regulatory changes in the export markets and intense competition** – The company faces intense competition from few domestic players as well as from other exporting countries like China and European countries and from substitute products like marble and granite. Revenues and profitability margins are vulnerable to macroeconomic factors like the performance of the housing real-estate sector in export markets. Also, the export sales of the company are susceptible to the demand situation and regulatory changes of the importing countries.

### Liquidity position: Adequate

The company’s liquidity position is adequate as the pending project cost is expected to be funded by promoter funds and undrawn term loan. Further, repayment of term loan will commence from March 2022 while its operations are expected to start by March 2021, providing time to the company to ramp up its operations.

### Rating sensitivities

**Positive triggers** – ICRA could upgrade ASPL’s ratings if the proposed facility is successfully commissioned without any cost overrun and timely ramp-up of the capacity results in healthy cash accruals.

**Negative triggers** – Pressure on ASPL’s rating could arise if there is any delay in project commissioning or lower ramp up in operations results in subdued cash accruals.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	None
Consolidation / Standalone	The ratings are based on the standalone financial statements of the company.

### About the company

Incorporated in 2018, ASPL is setting up a manufacturing facility for export of engineered (quartz) stones. The manufacturing plant is located at APIIC-Building Products (BP) Special Economic Zone at Annangi Village, Maddipadu Mandal (near Ongole), Prakasam district, Andhra Pradesh. The total project cost is Rs. 40.15 crore and is expected to be funded by Rs.20.00-crore term loan and the remaining by promoter’s funds. The expected capacity of the plant is 2,50,000 sq. mt. per annum and the expected COD is March 31, 2021.

### Key financial indicators: Not Applicable

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for last three years

Current Rating (FY2021)						Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated	Amount Outstanding	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
				Nov-24-2020				
1 Term Loan	Long Term	20.00	20.00	[ICRA]BB-(Stable)	-	-	-	
2 Fund Based-PC/PCFC/FDB/FBE/BRD	Short Term	5.00	NA	[ICRA]A4	-	-	-	

Amount in Rs. crore

### 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](http://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	Oct 2019	-	Dec 2027	20.00	[ICRA]BB- (Stable)
NA	PC/PCFC/FDB/FBE/BRD	Oct 2019	-	-	5.00	[ICRA]A4

Source: Company, Sanction Letter

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