October 27, 2021

Asian Granito India Limited: Long-term rating upgraded to [ICRA]A+ (Stable); Short-term rating reaffirmed

Summary of rating(s) outstanding

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Fund-based - Term Loan	31.27	31.27	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Fund-based - Working Capital Facilities	167.00	167.00	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Non-fund based - Bank Guarantee & Letter of Credit	55.84	55.84	[ICRA]A1; reaffirmed
Total	**254.11**	**254.11**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the long-term rating factors in the expected improvement in the credit profile of Asian Granito India Limited (AGL), following the fund raising of ~Rs. 225 crore through rights issue in October 2021 along with the divestment of its stake in an associate concern, Astron Paper and Board Mill Ltd. for ~Rs. 47 crore, which will substantially reduce the overall debt levels and support the liquidity position of the company. Of the proceeds from the right issue, around Rs. 80 crore will be utilised for working capital debt reduction which would improve the capital structure, while the balance will be utilized towards working capital requirements and general corporate purposes. Supported by healthy accruals and deleveraging measures undertaken by the company, ICRA expects AGL's consolidated Total Debt/OPBIDTA to be below 1.5 times in FY2022 compared to 2.2 times in FY2021. The ratings continues to favourably consider the extensive experience of AGL's promoters in the tiles industry and the company's established brand positioning in the domestic market, which along with its diversified product range and wide distribution network have resulted in steady sales growth.

The ratings, however, are constrained by the working capital intensive nature of the company's operations and the susceptibility of its profitability to adverse fluctuations in raw material and fuel prices. AGL derives a sizeable share of its revenues from project business, which results in elongated receivable cycle and higher working capital intensity than other similar-sized peers in the industry. ICRA also notes that the gas price has witnessed significant upsurge in the recent past. Notwithstanding the periodic price revisions undertaken by the company, its ability to continue to pass on the same in a timely manner remains to be seen and could exert pressure on the company's margins in the current fiscal. However, AGL's subsidiary, Crystal Ceramic Industries Pvt. Ltd. (CCIPL) has access to cheaper gas from ONGC and CCIPL has recently concluded brownfield expansion in vitrified tiles and thus, the Group proposes to sweat CCIPL's capacity to mitigate the overall impact of higher gas prices on the margins. While no major debt-funded capex is proposed in the AGL, the Group intends to increase its capacity significantly in the medium to long term by entering into Joint Venture/Outsourcing tie-ups. The ratings also factor in the intense industry competition from large as well as mid-sized players in the organised market, and the cyclicality associated with the real estate sector, which remains the key end-user of tiles.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that AGL will continue to benefit from its established brand presence in the ceramic industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters; established presence in Indian ceramic industry - AGL's promoters have extensive experience of over two decades in the ceramic industry, which has helped it to forge a strong relationship with suppliers and customers. At present, AGL is the fourth largest player in the domestic ceramic tiles industry and accounts for approximately ~3-4% of share in the domestic market.

Diversified product profile and wide distribution network - The product portfolio of the Group is well diversified and comprised of ceramic wall and floor tiles, vitrified tiles, quartz, marble and sanitaryware. The Group has an established presence in the domestic market with a wide distribution network comprising of over 6500 dealers/sub-dealers and 310 exclusive showrooms pan-India currently. Moreover, the Group also exports to Middle East, the USA, Europe, Africa and Indonesia (around 17% of the Group's revenues were derived from exports in FY2021).

Right issue and stake divestment in associate concern to support credit metrics - The company has raised equity through right issue of ~Rs. 225 crore in October 2021, which is expected to significantly improve the net worth levels (from Rs. 626 crore as on FY2021-end). Of the proceeds from the right issue, around ~Rs. 80 crore is proposed to be utilised towards working capital debt reduction, which would improve the capital structure (Total Debt/TNW is expected to remain at 0.2 times in FY2022 compared to 0.4 times in FY2021 at consolidated level), while the balance will be utilised towards working capital requirements (to support sales growth and reduction of creditors) and general corporate purposes (included future capex plans). Furthermore, the company has divested its 18.87% stake in an associate concern, Astron Paper and Board Mill Ltd. for ~Rs. 47 crore in August 2021, which will support the liquidity profile. Supported by healthy accruals and deleveraging measures undertaken by the company, ICRA expects AGL's consolidated Total Debt/OPBIDTA to be below 1.5 times in FY2022 compared to 2.2 times in FY2021.

Credit challenges

Working capital intensive operations - The company's working capital intensity has remained high, reflected by NWC/OI of around 30% in the past, because of high receivables and inventory levels. AGL normally provides a credit period of upto 90 days to its customers and receives a credit period of upto 120 days from its suppliers. Besides, the company maintains around 45-60 days of its raw material requirement and finished goods inventory in order to service any immediate requirement, resulting in high overall inventory days. Moreover, the company proposes to reduce its creditor days in order to garner better pricing for inputs, thus, the working capital intensity is likely to remain high, though current ratio is likely to improve going forward.

Vulnerability of profitability to fluctuations in raw material and fuel prices - Raw material and fuel are the two major cost components (~70%-75%) for the company and thus, its profitability remains susceptible to fluctuations in raw material and fuel prices given its limited ability to pass on the rise to customers amid intense industry competition. During FY2021, the operating margins improved by 130 bps to 10.5% at a consolidated level supported by softening in gas prices and cost saving measures undertaken by the company. ICRA, however, notes that the gas prices have witnessed significant upsurge in the recent past. Notwithstanding the periodic price revisions undertaken by the company, its ability to continue to pass on the same in a timely manner remains to be seen and could exert pressure on the company's margins in the current fiscal. However, AGL's subsidiary, CCIPL has access to cheaper gas from ONGC and CCIPL has recently concluded brownfield expansion in vitrified tiles and thus, the Group proposes to sweat CCIPL's capacity to mitigate the overall impact of higher gas prices on the margins.

Intense competition and cyclicality in real estate industry - The ceramic tile industry is intensely competitive, with presence of large players such as Kajaria Ceramics, H&R Johnson (India) (a division of Prism Johnson) and Somany Ceramics as well as other mid-sized players in the organized market. Moreover, the real estate industry remains the major end-user of the ceramic tiles and hence, the Group's revenues and cash flows remains vulnerable to cyclicality in the end-user industry.

Liquidity position: Adequate

The liquidity position is adequate despite its cash flow from operations expected to remain negative in FY2022 due to proposed reduction of creditors, supported by adequate cushion in working capital limits (working capital limits of ~Rs. 70 crore at a standalone level and ~Rs. 83 crore at a consolidated level remained unutilised as on June 2021). The liquidity position is further supported by ~Rs. 47 crore from divestment of stake in an associate concern in August 2021 and ~Rs. 225 crore of fund raising through right issue in October 2021.

Rating sensitivities

Positive factors - The ratings could be upgraded if a significant scale up of operations and an improvement in the profit margins on a sustained basis, improve the financial risk profile at a consolidated level. Moreover, an improvement in the working capital cycle, which enhances the liquidity position, could also lead to a rating upgrade. Specific credit metrics that could lead to an upgrade include RoCE above 20% and Total Debt/OPBDITA below 1.0 times at a consolidated level on a sustained basis.

Negative factors - Downward pressure on the ratings could arise if any significant decline in scale or profitability, leading to lower-than-expected cash accruals. Further, any large debt-funded capex or a significant stretch in the working capital cycle, which weakens the financial risk profile at a consolidated level may also lead to a downward revision of ratings. Specific credit metrics include Total Debt/OPBDITA above 2 times at a consolidated level on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of AGL. As on March 31, 2021, AGL had four subsidiaries and one step-down subsidiary (as per Annexure - 2)

About the company

Incorporated in 2002 by Mr. Kamlesh Patel and Mr. Mukesh Patel, Asian Granito India Limited is a public limited company listed on Bombay Stock Exchange and National Stock Exchange. It is a leading manufacturer of ceramic tiles with product range comprising of wall tiles, floor tiles, vitrified tiles, marble, quartz and sanitaryware. Over the years, the company has expanded its production capacities as well as product range, providing the manufacturing and marketing of flooring solutions under the brand name of AGL. AGL has ten manufacturing facilities (including three facilities of subsidiaries) in Morbi and Himmatnagar region of Gujarat, with an overall installed capacity of ~27 million sq. mt. at present.

In FY2021, at a consolidated level, the company reported a net profit of Rs. 55.7 crore on an operating income of Rs. 1,292.3 crore, as compared to a net profit of Rs. 43.5 crore on an operating income of Rs. 1,224.5 crore in FY2020. Further, in Q1 FY2022, at a consolidated level, the company reported a net profit of Rs. 8.0 crore on an operating income of Rs. 273 crore.

Key financial indicators (audited) - Standalone

Standalone	FY2020	FY2021	Q1 FY2022
Operating Income (Rs. crore)	1,013.2	1,036.2	237.3
PAT (Rs. crore)	29.6	49.2	7.0
OPBDIT/OI (%)	6.3%	9.4%	6.8%
PAT/OI (%)	2.9%	4.8%	2.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	0.8	-
Total Debt/OPBDIT (times)	2.8	1.2	-
Interest Coverage (times)	3.1	5.7	8.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Key financial indicators (audited) - Consolidated

Standalone	FY2020	FY2021	Q1 FY2022
Operating Income (Rs. crore)	1,224.5	1,292.3	273.0
PAT (Rs. crore)	43.5	55.7	8.0
OPBDIT/OI (%)	9.2%	10.5%	9.1%
PAT/OI (%)	3.6%	4.3%	2.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.1	-
Total Debt/OPBDIT (times)	3.0	2.2	-
Interest Coverage (times)	2.8	3.9	4.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					Oct 27, 2021	Mar 23, 2021	Jul 27, 2020 Jun 8, 2020	Jan 6, 2020	Jan 28, 2019 Jan 11, 2019 Dec 5, 2018	Aug 28, 2018 May 25, 2018
1	Term Loan	Long-term	31.27	16.35	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)
2	Working Capital Facilities	Long-term	167.00	NA	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)
3	Bank Guarantee & Letter of Credit	Short-term	55.84	NA	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Term Loan	Simple
Long-term - Working Capital Facilities	Simple
Short-term - Bank Guarantee & Letter of Credit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
State Bank of India	Term Loan	FY2021	7.5%	FY2023	29.86	[ICRA]A+ (Stable)
IndusInd Bank	Term Loan	FY2017	10.55%	FY2022	1.41	[ICRA]A+ (Stable)
State Bank of India	Woking Capital Facility	NA	NA	NA	139.00	[ICRA]A+ (Stable)
IndusInd Bank	Woking Capital Facility	NA	NA	NA	1.00	[ICRA]A+ (Stable)
HDFC Bank	Woking Capital Facility	NA	NA	NA	27.00	[ICRA]A+ (Stable)
State Bank of India	Bank Guarantee & Letter of Credit	NA	NA	NA	9.84	[ICRA]A1
IndusInd Bank	Bank Guarantee & Letter of Credit	NA	NA	NA	46.00	[ICRA]A1

Source: Asian Granito India Limited

Annexure-2: List of entities considered for consolidated analysis

Company	Ownership	Consolidation Approach
Amazoone Ceramics Ltd.	95.32% (rated entity)	Full Consolidation
Crystal Ceramic Industries Pvt. Ltd.	70% (rated entity)	Full Consolidation
AGL Industries Ltd.	100%	Full Consolidation
AGL Global Trade Pvt. Ltd.	100%	Full Consolidation
Powergrace Industries Ltd.	100% (step-down subsidiary)	Full Consolidation

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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