

Pacific Industries Limited

April 05, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	4.72	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Long Term Bank Facilities	25.00 (Enhanced from 9.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Long Term / Short Term Bank Facilities	20.00 (Enhanced from 13.00)	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable/ A Three)	Revised from CARE BB+; Stable / CARE A4+ (Double B Plus ; Outlook: Stable / A Four Plus)
Short Term Bank Facilities	8.60	CARE A3 (A Three)	Assigned
Short Term Bank Facilities	12.00 (Enhanced from 6.00)	CARE A3 (A Three)	Revised from CARE A4+ (A Four Plus)
Total Bank Facilities	70.32 (Rs. Seventy Crore and Thirty-Two Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Pacific Industries Limited (PIL) takes into account consistent growth in its scale of operations along with improvement in profitability margins during FY21 (refers to the period April 01 to March 31) and 9MFY22 (refers to the period April 01 to December 31). This has also resulted in higher cash accruals and improvement in financial risk profile as exhibited by large network base as well improvement in working capital cycle. The ratings continue to derive strength from PIL's experienced promoters and long track record of operations in granite and quartz segment with strong group presence, established track record of operations with diversified product portfolio and location advantage.

The above rating strengths, however, are partially offset by project execution risks, susceptibility to fluctuations in raw material prices and forex fluctuations, along with working capital intensive operations as well as having presence in highly competitive and prospects linked to cyclical real estate sector.

Outlook: Stable

Rating Sensitivities

Positive Sensitivities-

- Sustained Improvement in scale of operations above Rs.350 crore with ROCE ~15%.
- Improvement in working capital cycle below 100 days

Negative Sensitivities

- Decline in operating profitability margins to below 10%.
- Significant deterioration in capital structure and debt coverage indicators primarily arising from sharp dip in profitability or inordinate delay in proposed fund infusion or due to large debt funded capex being undertaken and/or elongation in its operating cycle on a sustained basis.
- Increase in working capital cycle above 180 days

Key Rating strength

Experienced and qualified management with strong group presence Mr. Jagdish Prasad Agarwal, Chairman and Managing Director of PIL, has more than three decades of experience and looks after overall affairs of the company. He is assisted by Mr. Kapil Agarwal, Executive Director, who has around 13 years of experience in the industry. Further, the promoters are supported with the experienced second-tier management. The company belongs to Udaipur based Pacific Group and group concern include Ojaswi Marbles and Granites Private Limited (engaged in marble Processing at Udaipur, Rajasthan), Geetanjali Marble, Krishna Marble, Pacific Exports (engaged in mining of iron ore at Katni, Madhya Pradesh), Pacific Leasing and Research Limited, Yash Processors Private Limited, Pacific Iron manufacturing Limited, Chaitanya international Mineral LLP and Geetanjali University (sponsored by Geetanjali University Trust (GUT) to impart medical education.

Established track record of operations and diversified product portfolio PIL was incorporated in the year 1989 and hence, has a track record of around three decades in the industry having established relationship with its customers and suppliers. The company majorly exports its products to USA, Europe, Indonesia, Vietnam as well as Middle East countries. Over the years, PIL has received various awards and certification, such as "Star Export House" certification from the Ministry of Commerce and Industry, certificate of life member of All India Granite and Stone Association. It also has membership of Centre for Development

¹ Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

of Stones and Confederation of Export Further, the company offers diversified products in the industry. The products of the company include variety of North Indian and South Indian granites which ranges in different styles, color, size and pattern etc. Further, it has flexibility to manufacture different varieties of quartz slabs by blending resins with quartz and other key materials up to desired requirement to get slabs with desired colour, hardness and durability.

Location advantage with ease of availability of raw material and labor PIL's processing facility of granites is situated in Rajasthan and Karnataka which has the largest reserve of marbles & granites in India with estimated reserves of 2,075.64 crore cubic metres accounting of more than 91% of the total marble reserves of the country. There are many units located in the cities of Rajasthan, Karnataka and Andhra Pradesh which are engaged in the business of mining and processing of marbles and granites. Further, skilled labour is also easily available by virtue of it being situated in the marble & granite belt of India.

Continuous growth in scale of operations and above average profitability margins The scale of operation of the company has increased significantly by 72.54% in FY21 over FY20 from Rs.104.11 crore in FY20 to Rs.179.64 crore in FY21 owing to major sales of quartz slabs as the demand scenario improved post opening of window for duty free imports by US (was available for February 2020 to June 2020) and thereafter post-finalisation of tariff at relatively lower rates in June 2020. Further, the Indian manufacturers are also benefitted on account of higher duty (more than 300% duty) imposed by US on imports of quartz slabs from China. The major revenue generated is from Quartz~63% while granite ~20.80% , iron ore of 15.71% to total revenue in FY21. Furthermore, PBILDT margin has improved from 12.27% in FY20 and 13.21% in FY21 and PAT margin improved by 0.18% in FY20 to 4.32% in FY21 in line with increase in PBILDT margin. Consequently, gross cash accruals also improved from Rs. 7.18 crore in FY20 to Rs. 25.58 crore in FY21. With gradual scaling up of operations and improvement in demand from the export market, PIL reported TOI of Rs.231.23 crore during 9MFY22 (refers to the period April 01 to December 31) with PBILDT margin and PAT margin at 11.94% and 5.15% respectively. CARE expects the growth momentum to continue along with on the back of healthy demand outlook from export markets.

Key Rating Weaknesses

Moderate solvency position The capital structure of the company remained moderate with an overall gearing of 1.20 times as on March 31, 2021, though deteriorated from 1.04 times as on March 31, 2021 owing to increase in total debt due to addition in term loan for setting up a unit for processing of quartz. Further, the debt coverage indicators remained moderate however improved significantly with total debt to GCA have improved from 12.86 times as on March 31, 2020 to 4.57 times as on March 31, 2021 mainly on account of higher proportionate increase in GCA level than total debt level with accretions of profits during FY21. Also, the interest coverage ratio remained modest and improved from at 2.22 times during FY20 to 3.95 times in FY21 due increase in PBILDT level. Further, the company is issuing the rights issue of share worth Rs. 48 crore by which company will use the same partly to repay debt and partly to fund its working capital requirements. Going forward, CARE expects the capital structure to improve.

Prospects linked to cyclical real estate sector As the firm is mainly involved in exports, it is exposed to the risk of slowdown in demand of its products in the target markets. Furthermore, the demand for firm's products is linked to real estate sector which is cyclical in nature. Further, as the company derives majority of its revenue from exports to USA, its performance is directly related demand in real estate sector in USA. Owing to imposition of preliminary duties by US DOC, the imports from India were severely impacted. However, the demand scenario improved post opening of window for duty free imports by US (was available for February 2020 to June 2020) and thereafter post-finalisation of tariff at relatively lower rates in June 2020. Further, the Indian manufacturers are also likely to be benefitted on account of higher duty (more than 300% duty) imposed by US on imports of quartz slabs from China. Despite Covid-19 pandemic, housing market in US has witnessed higher sales in the current year on the back of higher demand and very low interest rates. However, any slowdown in demand from real estate industry which is cyclical in nature would be crucial with regard to credit perspective

Risk associated with availability of raw material and foreign exchange fluctuation The inherent risk associated with this industry is that it is very difficult to procure the same quality of granite from the mines on a consistent basis. The availability of the appropriate quality and quantity of the raw material depends upon the mining operations as granites are natural products with limited reserves. Further, PIL is exposed to foreign exchange fluctuation risk considering that the company generated 78.55% of net sales from export in FY21. The company gets benefit of natural hedge to some extent through import of raw materials though the proportion of imports is very low. Further, the company does not follow any active hedging policy and hence, profitability is vulnerable to fluctuation in raw material prices and forex fluctuations.

Presence in a highly competitive granite industry The Indian Marble & Granite Industry is considered to be highly fragmented with presence of large number of organized and unorganized player. The industry is concentrated in Rajasthan and Karnataka and majority of the processing units are clustered around the mining area. The entry barriers to the industry are very low and the operating margin is susceptible to new capacity additions in the industry.

Liquidity Adequate: The liquidity position of the company stood adequate as net cash flow from operating activities stood around Rs.20.43 crore and had cash and bank balance of around 9.00 crore during FY21. The current ratio and quick ratio stood moderate at 1.50 times and 0.80 times respectively as on March 31, 2021 as compare to 2.30 times and 1.18 times as on March 31, 2020. The average utilization of its working capital bank borrowings of around 94% during last 12 months ending Sept 2021. The company is planning to infuse funds which is expected to improve the liquidity in the company further.

Analytical approach: Standalone.

Applicable criteria:

[Policy on default recognition](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the Company

Udaipur (Rajasthan) based PIL was incorporated in 1989 by Mr. J.P Agarwal along with other family members. In 2001, the company was listed in BSE. PIL is engaged in the business of manufacturing, processing and trading of marble, granite and natural sandstone. The processing plant of the company is located at Udaipur and Bangalore respectively and has an installed capacity to process 12000 Tonnes Per Annum (TPA) of marble slabs and tiles. The company majorly exports its products in USA, Europe, Indonesia, Vietnam and Middle East and imports granite from Italy and China. Further, in FY17, the company formed two 100% wholly owned subsidiary namely, 'Gaze Fashiontrade Limited' and 'Gist Minerals & Technologies Limited'. Subsequently, in March, 2017, the wholly owned subsidiary acquired four companies; Biswas Solar Instrument Private Limited, Blood Hound Security Company Private Limited, Radhkia Vyapaar Private Limited and Saha Coloured & Falvour Spirit Manufacture Private Limited. Further, in FY20, Saha has merged with GMTL while in FY21, BSIPL, BHSCPL and RVPL has been merged with GFL wide order dated Jan 07, 2021 with effect from April 01, 2020.

Earlier, during November 2020, PIL has incorporated a wholly owned subsidiary in USA in the name of Taanj Quartz INC for marketing of quartz. Presently PIL has 3 wholly owned subsidiaries GMTL, GFL, Taanz Quartz INC .

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22(UA)
Total operating income	104.11	179.64	231.23
PBILDT	12.77	23.74	27.62
PAT	0.19	7.76	11.90
Overall gearing (times)	1.04	1.20	NA
Interest coverage (times)	2.23	3.94	5.64

A: Audited , NA- Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Sept-2027	25.00	CARE BBB-; Stable
Fund-based - LT/ ST-EPC/PSC		-	-	-	20.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Letter of credit		-	-	-	12.00	CARE A3
Fund-based - LT-Working capital Term Loan		-	-	-	4.72	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	4.60	CARE A3
Non-fund-based - ST-Forward Contract		-	-	-	4.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	25.00	CARE BBB-; Stable	-	1)CARE BB+; Stable (23-Feb-21)	1)CARE BB-; Stable (20-Mar-20)	1)CARE BB-; Stable (19-Feb-19)
2	Fund-based - LT/ST-EPC/PSC	LT/ST*	20.00	CARE BBB-; Stable / CARE A3	-	1)CARE BB+; Stable / CARE A4+ (23-Feb-21)	1)CARE BB-; Stable / CARE A4 (20-Mar-20)	1)CARE BB-; Stable / CARE A4 (19-Feb-19)
3	Non-fund-based - ST-Letter of credit	ST	12.00	CARE A3	-	1)CARE A4+ (23-Feb-21)	1)CARE A4 (20-Mar-20)	1)CARE A4 (19-Feb-19)
4	Fund-based - LT-Working capital Term Loan	LT	4.72	CARE BBB-; Stable				
5	Non-fund-based - ST-Bank Guarantee	ST	4.60	CARE A3				
6	Non-fund-based - ST-Forward Contract	ST	4.00	CARE A3				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	DSCR to be Maintained over 1.1x for the facility period. PCFC tenor 120 days / LC tenor 120 days - reducing from exiting 180 days. Term loan Client: Bank share will be 1:1.
B. Non financial covenants	
I. Expansion/ Joint Venture	Any Expansion by way of joint venture or further dilution of equity should be duly informed to bank

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working capital Term Loan	Simple
3	Fund-based - LT/ ST-EPC/PSC	Simple
4	Non-fund-based - ST-Bank Guarantee	Simple
5	Non-fund-based - ST-Forward Contract	Simple
6	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact

Mradul Mishra

Contact no. - +91-22-6754 3573

Email ID – mradul.mishra@careedge.in

Analyst Contact

Mr. Vikash Agarwal

+91-22-67543604

Email ID - vikash.agarwal@careedge.in

Relationship Contact

Mr. Saikat Roy

Cell: + 91 98209 98779

E-mail: saikat.roy@careedge.in

About CARE Ratings:

Established in 1993, CARE Ratings Ltd is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**