

Aro Granite Industries Limited

December 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	74.00	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	130.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	204.00 (₹ Two Hundred Four Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Aro Granite Industries Limited (Aro) draw strength from company's long operational track record, established relationship with customers, satisfactory operational and financial performance in FY22 albeit expected moderation in FY23 (FY refers to period between April- March), geographically well diversified customer profile and comfortable capital structure albeit moderation owing to recently completed debt funded capex and higher working capital utilization. The rating also takes note of successful ramp up of production at the quartz plant to diversify its product portfolio. The ratings are however constrained by elongated inventory holding and stretched collection period resulting in high dependence on working capital lines, exchange rate fluctuation risk, intense competition in the granite industry and irregular availability of quality raw material in domestic market and enforcement of anti-dumping duty by the US Government.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations to above ₹ 250.00 crore while maintain PBILDT margin at existing levels.
- Improvement in liquidity profile by optimising working capital utilisation with average utilisation not exceeding 80%.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in overall gearing to above 1.25x
- Decline in scale of operations or profitability margin to below ₹150.00 crore or 10% respectively, in future.

Outlook: Negative

The outlook is revised from stable to negative considering weaker performance in H1FY23, increasing working capital debt levels and moderation in liquidity profile. Outlook may be revised to stable if company is able to achieve more than expected revenue and profits in coming quarters coupled with improvement in its liquidity position.

Detailed description of the key rating drivers

Key rating strengths

Long and satisfactory track record of operations:

Incorporated in 1988, Aro has a long track record with significant experience in the Granite industry. The company's operations had scaled up over the years, starting operations with 72,000 sq. mt. per annum of granite tile in 1991 and the company now operates two units with an installed capacity of 7.35 lakh sq. mt. per annum for granite slabs and 3.60 lakh sq. mt. per annum for granite tiles. Aro also processes Quartz stone in its Hosur plant with a production capacity of 1.80 sq. mt. per annum.

Diversified customer profile and products:

Aro's client base is spread across more than 50 countries including USA, Europe, Africa and Russia among others. Major share of sales (approximately 91%) for Aro comes from export markets. Aro receives repeat orders from most of the customers due to its long-standing association resulting in steady growth in business over the years. Company has two major segments namely granite slabs and tiles. Slabs forms a major part of ARO business and contributed 81% to its revenue in FY22. The slab segment of the company will continue to contribute better with rising sales from Jaipur plant along with increased production from quartz unit. Tiles segment has a smaller contribution in Aro's revenue profile accounting for 19% of its revenue in FY22.

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

Improved total operating income with stable operating margins during FY22 albeit weakened in H1FY23:

Company's capacity utilization varies each year depending on the granite demand which is further dependent upon various factors like customer preferences towards engineered stone as substitute material to granite, availability etc. Contribution from the Quartz slab plant at Hosur increased significantly from ₹ 2.3 Cr in FY21 to ₹ 41.7 Cr in FY22. FY22 was the first full year of commercial operations of the Quartz slab plant. The Jaipur plant that manufactures Granite slabs contributed ₹ 42.4 Cr in FY22 against ₹ 36.2 Cr in FY21. Profitability during FY22 has remained largely stable with PBILDT of 13.8% in FY22 against 13.3% in FY21. The Jaipur plant operated at full capacity backed by better availability of workers and raw material unlike Hosur plant where shortage of labour and raw material resulted in the lower capacity utilisation. The company has also installed multi wire cutting machine at the Jaipur plant that have enhanced its capacity by 50% without a significant capital expenditure. However, the company's operations witnessed moderation in Q1 and Q2FY23 primarily because of decline in TOI which emanated from Russia Ukraine war, Shortage of containers and anti-dumping duty by the US Government and rigid cost structure which resulted in decline in the profitability.

Key rating weaknesses**Elongated operating cycle**

The company is exposed to the long working capital cycle days mainly on account of high inventory and collection period. During FY22, the operating cycle has slightly improved to 369 days from 389 days in FY21 owing to efficient collection of receivables and reduced inventory holding period. Storage of stocks of different types/shades as required by the clients and maintaining adequate level of inventory is necessitated, given the nature of the product. The granite industry has moved from order driven market to Stock & Sell Market, as the availability of raw material is not guaranteed, and it must be procured as and when it is available. Customers decide the product based on the available stock with the company and as a result company must maintain the high level of inventory to meet the customer requirements. Company offers more than 100 varieties of colour.

Moderation in capital structure and debt coverage indicators:

The capital structure of the company marked by debt equity ratio and overall gearing deteriorated over previous year, however stood at around unity as on March 31, 2022. The debt equity ratio deteriorated from 0.11x on March 31, 2019, to 0.39x on March 31, 2022, on account of utilisation of Covid Emergency Credit line in form of working capital term loan in addition to term loan availed for establishment of Jaipur unit and Quartz plant in Hosur unit. The overall gearing deteriorated to 1.02x on March 31, 2022, from 0.90x on March 31, 2021, because of higher utilization of working capital facilities. The PBILDT/ interest coverage ratio stood satisfactory at 3.92x however Total debt/GCA stood weak at 9.22x on March 31, 2022. Cash flow from operations for company was negative ₹ 17.1 Cr for FY22 because of rise in inventory (which primarily included finished goods) and rise in the receivables from ₹ 64.0 Cr in FY21 to ₹ 73.1 Cr in FY22.

Exchange rate fluctuation risk

Since majority of the sales are exports, the company is exposed to foreign exchange risk due to unstable currency fluctuations, which has a direct impact on company's profitability margins. However, the company is naturally hedged to some extent through import of raw materials which accounts for more than 20% of the total raw material consumed. Besides, working capital borrowings are predominately in the nature of PCFC.

Intense competition in the industry with presence of innumerable unorganized players

Globally, granite production is dominated by China, Brazil, India, Saudi Arabia, Italy and Spain. India has abundant resources of granite, which makes it one of the top three granite producers and one of the top five granite exporters in the world. Geologically, the southern and eastern belts in India are abundant in granite deposits. Different shades of granites are available in abundance in Tamil Nadu, Andhra Pradesh, Telangana, Karnataka, Maharashtra, Assam, Bihar, Rajasthan, Odisha, Meghalaya and Madhya Pradesh. The presence of vast mineral resources along with increasing demand globally has provided robust growth opportunities to players in the segment. Due to this, the industry is marked with presence of innumerable unorganized players and the granite industry is a fragmented industry which results in intense competition. However, the company operates in the entire value chain of granite industry which includes quarrying, processing and distribution of granite slabs and further has ventured into manufacturing and distribution of Quartz stone which reduces the competition from unorganized players in the industry.

Liquidity: Adequate

The liquidity profile of the company is adequate, and the company is generating sufficient accruals to meet its repayment obligation. COVID loans have sufficient moratorium hence immediate impact on liquidity is not envisaged. The average working capital utilisation has remained high at 93% for last twelve months ended September 30, 2022. The company has no CAPEX planned in near to medium term. Moreover, liquidity is supported by current ratio of 1.55x as on March 31, 2022, however the company had a negative cash flow from operations of ₹ 17.1 Cr because of increase in the inventory.

Analytical approach: Standalone**Applicable criteria**

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the company

Aro Granite Industries Limited was incorporated in the year 1988. It has been engaged in processing of granite tiles and slabs and exports to more than 50 countries across the world. Company has an 100% Export Oriented Unit (EOU) located in Hosur, Tamil Nadu and in 2019 Aro started a new 100% EOU unit in Jaipur, Rajasthan. With the commissioning of its Quartz plant in January 2021 in its existing facility in Hosur, the company is now offering engineered stone. Aro has a wide product portfolio of granite slabs, granite tiles, quartzite slabs, cut to size granite tiles and quartz slabs and tiles. The company has an installed capacity of 7.35 lakh sq. mt. per annum for granite slabs and 3.60 lakh sq. mt. per annum for granite tiles. Aro also processes quartz stone in its Hosur plant with a production capacity of 1.80 lakh sq. mt. per annum. It has granite processing plant in Jaipur with processing capacity of 1.50 lakh sq. mt. per annum of granite slabs. Company has been awarded with Special Export Award by CAPEXIL (set up in March 1958 by the Ministry of Commerce, Government of India) for 7 years in a row. Its major export markets are USA, Poland, Germany, Italy and Slovakia.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	179.37	225.74	83.41
PBILDT	23.80	31.08	12.88
PAT	6.05	8.91	0.86
Overall gearing (times)	0.90	1.02	1.03
Interest coverage (times)	4.42	3.92	2.21

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	September 2027	74.00	CARE BBB-; Negative
Fund-based - ST-Packing Credit in Foreign Currency		-	-	-	130.00	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)CARE A3 (15-Jan-21) 2)Withdrawn (15-Jan-21)	1)CARE A3 (03-Jan-20)
2	Fund-based-Short Term	ST	-	-	-	-	1)CARE A3 (15-Jan-21) 2)Withdrawn (15-Jan-21)	1)CARE A3 (03-Jan-20)
3	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	-	1)CARE BBB-; Stable (15-Jan-21) 2)Withdrawn (15-Jan-21)	1)CARE BBB-; Stable (03-Jan-20)
4	Fund-based - LT-Term Loan	LT	74.00	CARE BBB-; Negative	-	1)CARE BBB-; Stable (31-Mar-22) 2)CARE BBB-; Stable (04-Jan-22)	-	-
5	Fund-based - ST-Packing Credit in Foreign Currency	ST	130.00	CARE A3	-	1)CARE A3 (31-Mar-22) 2)CARE A3 (04-Jan-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable**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 - ST-Packing Credit in Foreign Currency	Simple

Annexure-5: Bank lender details for this companyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings 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.

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