

Aro Granite Industries Limited

February 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	74.00	CARE BB+; Stable	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)
Short Term Bank Facilities	130.00	CARE A4+	Revised from CARE A3 (A Three)

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision of the ratings assigned to the bank facilities of Aro Granite Industries Limited (Aro) is on account of elongation in company's inventory holding levels and stretched collection period resulting in high reliance on working capital borrowings and negative cash flows from operations. Ratings are further constrained by moderation in financial and operational performance of the company in previous few quarters because of global economic slowdown, lukewarm demand and increasing costs components, intense competition in the granite industry, risk associated with availability of raw material and business being exposed to international regulatory norms like anti-dumping duty, taxes etc.

Nonetheless, the ratings draw comfort from company's long operational track record, experienced management with a qualified team of professionals down the line, established relationships with customers, geographically well-diversified customer base and comfortable capital structure.

Rating sensitivities: Factors likely to lead to rating actions:

Positive factors

- Increase in the scale of operations to above ₹250.00 crore with improvement in the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin at the existing levels.
- Improvement in the liquidity profile by optimizing working capital utilization, with average utilization not exceeding 80%.
- Notable improvement in operating cycle.

Negative factors

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

Analytical approach: Standalone

Key weaknesses

Elongated operating cycle: The company is exposed to long working capital cycle days mainly on account of a high inventory and collection period. During FY22, the operating cycle has slightly improved to 369 days from 389 days in FY21, owing to the efficient collection of receivables and reduced inventory-holding period. The inventory, however, has increased to ₹ 199.99 crore on December 31, 2022, compared to ₹ 177.30 crore on March 31, 2022. Storage of stocks of different types and shades as required by clients and maintaining an adequate level of inventory is necessitated, given the nature of the product. The granite industry has moved from an order-driven market to a stock-and-sell market, as the availability of raw materials is not guaranteed, and they must be procured as and when it is available. Customers decide on the product based on the available stock with the company, and as a result, the company must maintain a high level of inventory to meet the customers' requirements. The company offers more than 100 varieties of colour.

Weak performance for 9MFY23: The company has achieved total operating income of ₹ 117.43 crore in for 9MFY23 (9MFY22: ₹ 177.24 crore) with PBILDT of ₹ 12.51 crore (₹ 25.52 crore). Weak performance for the period is primarily because of a decline in the TOI, which emanated from the Russia-Ukraine war, the shortage of containers, the anti-dumping duty by the US Government, and the rigid cost structure, which resulted in a decline in the profitability. The anti-dumping duty has been decreased in January 2023. The company has reported loss of ₹ 7.14 crore for Q3FY23 because of loss emanating from accounting of depreciation of INR against USD and EUR.

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

Intense competition in the industry with the presence of innumerable unorganised players: Globally, granite production is dominated by China, Brazil, India, Saudi Arabia, Italy, and Spain. India has an abundance of resources of granite, which makes it among the top three granite producers and among 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 the increasing demand globally has provided robust growth opportunities to players in the segment. Due to this, the industry is marked with the presence of innumerable unorganised players and the granite industry is a fragmented industry, which results in intense competition. However, the company operates in the entire value chain of the granite industry, which includes quarrying, processing, and distribution of granite slabs and has further ventured into the manufacturing and distribution of quartz stone, which reduces the competition from unorganised players in the industry.

Key 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; it commenced operations with 72,000 sq m per annum of granite tiles in 1991 and the company now operates two units with an installed capacity of 7.35 lakh sq m per annum for granite slabs and 3.60 lakh sq m per annum for granite tiles. Aro also processes quartz stone in its Hosur plant with a production capacity of 1.80 sq m per annum.

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

Improved total operating income (TOI) with stable operating margins during FY22: The company's capacity utilisation varies each year depending on the demand for granite, which is further dependent upon various factors like customer preferences towards engineered stone as a substitute material to granite, availability, etc. The contribution from the quartz slab plant at Hosur increased significantly from ₹2.3 crore in FY21 to ₹41.7 crore 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 crore in FY22 as against ₹36.2 crore in FY21. The profitability during FY22 has remained largely stable with a PBILDT of 13.8% in FY22 as against 13.3% in FY21. The Jaipur plant operated at full capacity, backed by better availability of workers and raw materials, unlike the Hosur plant, where a shortage of labour and raw materials resulted in lower capacity utilisation. The company also installed a multi-wire cutting machine at the Jaipur plant, which has helped enhance its capacity by 50%.

Comfortable capital structure: The capital structure of the company, marked by debt-to-equity ratio and overall gearing, although deteriorated over the previous year because of higher working capital utilisation, stood at around unity as on March 31, 2022. The PBILDT to interest coverage ratio stood satisfactory at 3.92x, however, the total debt (TD)/gross cash accruals (GCA) stood moderate at 9.22x on March 31, 2022.

Liquidity: Stretched

The liquidity profile of the stretched owing to significant increase in inventory. As COVID loans have a sufficient moratorium, hence the immediate impact on liquidity is not envisaged. The average working capital utilisation has remained high at 93% for the last 12 months ended September 30, 2022. The company has no capex planned in the near to medium term. The company had a negative cash flow from operations of ₹17.1 crore because of an increase in the inventory.

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](#)

[Policy on Withdrawal of Ratings](#)

About the company

Aro was incorporated in the year 1988. It has been engaged in the processing of granite tiles and slabs and exports to more than 50 countries across the world. The company has a 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. It has an installed capacity of 7.35 lakh sq m per annum for granite slabs and 3.60 lakh sq m per annum for granite tiles. Aro also processes quartz stone in its Hosur plant with a production capacity of 1.80 lakh sq m per annum. It has a granite processing plant in Jaipur with a processing capacity of 1.50 lakh sq m per annum of granite slabs. The company has been awarded with a Special Export Award by CAPEXIL (set up in March 1958 by the Ministry of Commerce, Government of India) for seven years in a row. Its major export markets are the US, Poland, Germany, Italy, and Slovakia.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	179.37	225.74	117.43
PBILDT	23.80	31.08	12.51
PAT	6.05	8.91	-6.28
Overall gearing (times)	0.90	1.02	NA
Interest coverage (times)	4.42	3.92	1.38

A: Audited, NA: Not available

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	September 2027	74.00	CARE BB+; Stable
Fund-based - ST-Packing Credit in Foreign Currency		-	-	-	130.00	CARE A4+

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)Withdrawn (15-Jan-21) 2)CARE BBB-; Stable (15-Jan-21)	1)CARE BBB-; Stable (03-Jan-20)
4	Fund-based - LT-Term Loan	LT	74.00	CARE BB+; Stable	1)CARE BBB-; Negative (06-Dec-22)	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 A4+	1)CARE A3 (06-Dec-22)	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 the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-Packing Credit in Foreign Currency	Simple

Annexure-5: Lender details

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

Note on the 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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