

Pacific Industries Limited

April 03, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|--|--------------------------------|-----------------------------|---------------|
| Long Term Bank Facilities | 22.32 (Reduced from 29.72) | CARE BBB-; Stable | Reaffirmed |
| Long Term / Short Term Bank Facilities | 33.00 (Enhanced from 20.00) | CARE BBB-; Stable / CARE A3 | Reaffirmed |
| Short Term Bank Facilities | 14.00 (Reduced from 16.00) | CARE A3 | Reaffirmed |
| Short Term Bank Facilities | - | - | Withdrawn |

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Pacific Industries Limited (PIL) takes into account its moderate scale of operations and profitability during FY22 (Audited; refers to period from April 01 to March 31) and 9MFY23 (Unaudited; refers to period from April 01 to December 31). 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 ratings also takes cognizance of completion of Right issue of PIL during February 2023.

The above rating strengths, however, are partially offset by moderate solvency position, susceptibility to fluctuations in forex exchange as well as having presence in highly competitive industry and prospects linked to cyclical real estate sector.

Further, as per the clarification submitted by PIL to stock exchange on February 21, 2023, Income Tax department has conducted inquiry under section 132 and 133 of Income Tax Act, 1961 from February 16, 2023 to February 21, 2023. As conveyed by PIL's management to CARE Ratings, there have been no material findings from the inquiry conducted so far. As per disclosure made to stock exchange, PIL will update stock exchange on material information of event, if any. CARE Ratings shall however continue to monitor the developments of the case and its impact, if any on the credit profile of PIL.

CARE has withdrawn short term ratings assigned to one of its bank facilities with immediate effect as there are no outstanding dues against the same.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained Improvement in scale of operations marked by total operating income (TOI) above Rs.350 crore with ROCE ~15%
- Improvement in working capital cycle below 100 days

Negative factors

- 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 due to large debt funded capex being undertaken on a sustained basis
- Increase in working capital cycle above 180 days

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects that the rated entity is likely to maintain its moderate financial risk profile despite dip in the total operating income (TOI) during Q3FY23.

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

Key strengths

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 Geetanjali 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 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 labour

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.

Moderate scale of operation and profitability

The scale of operation of the company has increased significantly by ~59% in FY22 over FY21 from Rs.178.90 crore in FY21 to Rs.284.58 crore in FY22 owing to major sales of quartz slabs as the demand scenario improved post opening of window for duty free imports by US 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~68% while granite ~14%, iron ore of ~18% to total revenue in FY22.

Furthermore, PBILDT margin has declined from 12.85% in FY21 to 10.20% in FY22 due to higher raw material cost and freight expense. However, with concerns related to import duty in USA during June 2022, TOI dipped for Q3FY23 and hence TOI for 9MFY23 remained at Rs.146.45 crore. However, with clarification issued by US Dept. of commerce during January 2023 regarding reduction in import duty, it is now estimated that TOI will eventually increase going forward.

Key weaknesses

Moderate solvency position

Capital structure of the company remained moderate marked by overall gearing at 1.25x as on March 31, 2022 vis-à-vis 1.20x as on March 31, 2021. Interest coverage improved to 4.38x in FY22 from 3.82x in FY21 on account of higher operating profit. However, for 9MFY23, Interest coverage declined to 2.19x due to decline in operating profits. Further, Right issue has been completed during February 2023 and with the repayment of USL from the said proceeds coupled with increase in tangible net worth, CARE Ratings expects capital structure to improve going forward.

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 to demand in real estate sector in USA.

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.

Risk associated with susceptibility to fluctuations in foreign exchange

PIL is exposed to foreign exchange fluctuation risk considering that the company generated ~77% of TOI from export in FY22. 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.

Liquidity: Adequate

The liquidity position of the company remained adequate marked by comfortable current ratio and adequate gross cash accruals vis-à-vis debt repayment obligations. Current ratio remained at 1.38 times as on March 31, 2022, while quick ratio remained at 0.70 times due to higher inventories. The company maintains high inventory due to nature of the product necessitating storage of minimum level of stocks of different types/shades and partly due to nature of business being natural stones. Average utilization of its working capital bank borrowings of 90% during last 12 months ending February 2023 and moderate operating cycle of 104 days in FY22 improved from 152 days in FY21. The gross cash accruals for FY23 expected to remain in line with debt repayment obligation of Rs.10.42 crore in FY24. The operations are also supported by infusion of funds of ~Rs.48 crore by way of right issue

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 and industry

Industry Classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|--------------------------|-------------------|-------------------|--------------------|
| Consumer Discretionary | Consumer Durables | Consumer Durables | Granites & Marbles |

Udaipur (Rajasthan), based Pacific Industries Limited (PIL) was incorporated in 1989 by Mr Jagdish Prasad Agarwal along with other family members and in 2001, the shares of the company were listed on Bombay Stock Exchange. Further, in FY17, the company formed two 100% wholly owned subsidiary namely, Gaze Fashiontrade Limited (GFL) and Gist Minerals & Technologies Limited (GMTL). 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. Initially, PIL was engaged in the business of processing of granite from its processing plant located at Udaipur and Bangalore (Karnataka). Subsequently, in order to diversify its product portfolio and to cope up with increasing demand of quartz slabs (engineered stone), the company set up a plant in FY20 for manufacturing of quartz slabs in Udaipur. The plants of the company have total installed capacity of 12,000 Tonnes Per Annum (TPA) to process granite and 4,50,000 square meter per annum for quartz slabs. The company sells granite in domestic market as well as export to USA, Europe, Indonesia, Vietnam and Middle East whereas it sells entire quartz slabs and tiles to USA and European countries.

| Brief Financials (₹ crore) | March 31, 2021 (A) | March 31, 2022 (A) | 9MFY23 (UA) |
|----------------------------|--------------------|--------------------|-------------|
| Total operating income | 178.90 | 284.58 | 146.45 |
| PBILDT | 23.00 | 29.03 | 14.44 |
| PAT | 7.76 | 9.45 | -0.26 |
| Overall gearing (times) | 1.20 | 1.25 | NA |
| Interest coverage (times) | 3.82 | 4.38 | 2.19 |

A: Audited, UA: Unaudited, NA: Not Available, Note: "Above financials are the latest financials available"

Status of non-cooperation with previous CRA: ICRA has placed the rating assigned to the bank facilities of PIL under 'Issuer Not Cooperating' category vide its press release dated May 31, 2022, on account of its inability to carry out a rating exercise in the absence of the requisite information from the company.

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 | | - | - | 30/09/2027 | 19.30 | CARE BBB-; Stable |
| Fund-based - LT-Working capital Term Loan | | - | - | 30/11/2024 | 3.02 | CARE BBB-; Stable |
| Fund-based - LT/ ST-EPC/PSC | | - | - | - | 33.00 | CARE BBB-; Stable / CARE A3 |
| Non-fund-based - ST-Bank Guarantee | | - | - | - | 0.00 | Withdrawn |
| Non-fund-based - ST-Forward Contract | | - | - | - | 2.00 | CARE A3 |
| Non-fund-based - ST-Letter of credit | | - | - | - | 12.00 | 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 | Fund-based - LT-Term Loan | LT | 19.30 | CARE BBB-; Stable | 1)CARE BBB-; Stable (05-Apr-22) | - | 1)CARE BB+; Stable (23-Feb-21) | 1)CARE BB-; Stable (20-Mar-20) |
| 2 | Fund-based - LT/ST-EPC/PSC | LT/ST* | 33.00 | CARE BBB-; Stable / CARE A3 | 1)CARE BBB-; Stable / CARE A3 (05-Apr-22) | - | 1)CARE BB+; Stable / CARE A4+ (23-Feb-21) | 1)CARE BB-; Stable / CARE A4 (20-Mar-20) |
| 3 | Non-fund-based - ST-Letter of credit | ST | 12.00 | CARE A3 | 1)CARE A3 (05-Apr-22) | - | 1)CARE A4+ (23-Feb-21) | 1)CARE A4 (20-Mar-20) |
| 4 | Fund-based - LT-Working capital Term Loan | LT | 3.02 | CARE BBB-; Stable | 1)CARE BBB-; Stable (05-Apr-22) | - | - | - |
| 5 | Non-fund-based - ST-Bank Guarantee | ST | - | - | 1)CARE A3 (05-Apr-22) | - | - | - |
| 6 | Non-fund-based - ST-Forward Contract | ST | 2.00 | CARE A3 | 1)CARE A3 (05-Apr-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 - 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: Lender details

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

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

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About us:

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