

Aro Granite Industries Limited

September 12, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	70.50 (Reduced from 74.00)	CARE BB+; Stable	Reaffirmed
Short-term bank facilities	130.00	CARE A4+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Aro Granite Industries Limited (Aro) continue to take into account the working capital (WC) intensive nature of operations due to high inventory holding as the company follows stock and sell model for its granite division. This, along with continuous debt-funded capex undertaken by the company during last few years have resulted in high debt level for Aro. Moreover, Aro also faced multiple challenges during FY23 in terms of high costs, slowdown in export markets, imposition of anti-dumping duty (ADD) by the US on quartz, etc., resulting in lower capacity utilisation of its plants.

While majority of these issues have been resolved, high interest rates and slowdown in the western markets may continue to exert pressure on the company's business profile in the near term. Nevertheless, CARE Ratings Limited (CARE Ratings) positively takes note of partial recovery in the business after roll back of ADD and reduction in shipping costs. Nevertheless, sustenance of the same is key, considering the upcoming ballooning debt repayments. The ratings are also constrained by susceptibility to foreign exchange fluctuation risk and intense competition in the industry with the presence of innumerable unorganised players. Nevertheless, the ratings continue to derive strength from Aro's long track record of operations, diversified customer profile and products and recovery in performance during last two quarters (viz., Q4FY23 and Q1FY24). The ratings also continue to derive strength from its experienced promoters and experienced management with a qualified team of professionals.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the scale of operations to more than ₹250 crore, earnings before interest, taxes, depreciation and amortisation (EBITDA) margin > 15% and net working capital (NWC)/operating income (OI) to less than 90%.

Negative factors

- Sales less than ₹180 crore or deterioration of overall gearing above 1.5x or NWC/OI of more than 125%.
- Any macroeconomic level policies being imposed on the industry/company.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook indicates CARE Ratings' expectation that Aro will maintain satisfactory credit profile backed by reduction in shipping costs and roll back of ADD which would improve the capacity utilisation of its units.

Detailed description of the key rating drivers:

Key weaknesses

Moderation in financial risk profile in FY23 but recovery witnessed in recent quarters

The company's income reduced from ₹225.7 crore in FY22 to ₹163.9 crore in FY23 due to several factors which includes high shipping costs, recessionary trend in western markets impacting granite demand as well as imposition of anti-dumping duty by US on import of Indian quartz. Consequently, the PBDIT margins were also impacted which reduced from 13.77% in FY22 to 11.63% in FY23. With majority of the issues stated above being resolved except for high interest rates and slowdown in Western markets, CARE Ratings expects the company's sales and profitability will gradually rise. The same is also witnessed in the Q1FY24 results of the company. Nevertheless, sustenance of the same would be monitored considering the high upcoming ballooning debt repayments.

WC-intensive nature of operations

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. This necessitates storage of different types of stocks as required by the clients and maintaining adequate level of inventory to meet the demand of customers on timely basis. The companies in the granite industry usually have elongated WC cycle and consequently high WC borrowings.

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

The overall gearing deteriorated to 1.16x on March 31, 2023, from 1.02x on March 31, 2022, because of higher utilisation of working capital facilities.

Intense competition in the industry with the presence of innumerable unorganised players

The presence of vast mineral resources along with increasing demand globally has provided robust growth opportunities to players in the segment. Globally, granite production is dominated by China, Brazil, India, Saudi Arabia, Italy, and Spain. India used to be uncompetitive vis-à-vis China in quartz pricing but as USA levied anti-dumping duty and CVD of over 500% on Chinese imports, the export opportunities for Indian quartz exporters have increased. The presence of innumerable unorganised players and the granite industry being fragmented in nature, results in intense competition.

Susceptibility to foreign exchange fluctuation risk

Aro being a 100% export oriented unit (EOU) is exposed to the risk associated with fluctuation in foreign exchange rates as they are involved in exports as well as imports with export sales being higher than imports. In case of adverse foreign exchange fluctuations there remains risk of impact on profitability due to absence of any active hedging policy followed by the company.

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. The company now operates two units, in Hosur and Jaipur, 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

Being a 100% EOU, Aro has customer network spread across more than 50 countries, including the US, Europe, Africa and Russia, among others. The major share of sales 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 a wide product portfolio of granite slabs, granite tiles, cut-to-size granite tiles and quartz slabs and tiles.

CARE Ratings expects the quartz segment of the company to contribute better with rising sales from the Jaipur plant along with increased production from the quartz unit.

Recovery in performance during last two quarters

With resolution of majority of issues faced by the company in FY23, except for continuing high interest rates, Aro's performance has improved since last review in Q4FY23 and Q1FY24. The PBILDT margin which stood at 17.5% in Q1FY24 as well as the revenues witnessed a jump with quartz sales picking up.

Liquidity: Stretched

The liquidity of the company is constrained due to the high inventory being maintained by it which is primarily funded out of debt translating into near-full utilisation of WC limits. The cash accruals of the company are likely to improve on the back of several issues pertaining to ADD, shipping costs, etc., being sorted out. With no debt-funded capex plan in the near to medium term, Aro's cash accruals would be sufficient to repay the upcoming debt obligations.

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

Aro, incorporated in the year 1988, is engaged in processing of granite tiles and slabs and exports to more than 50 countries across the world. The company is 100% EOU located in Hosur, Tamil Nadu. In 2019, Aro started a new EOU unit in Jaipur, Rajasthan. With the commissioning of its quartz plant in January 2021 in its existing facility in Hosur, the company currently offers engineered stone.

Aro has a wide product portfolio of granite slabs, granite tiles, cut-to-size granite tiles and quartz slabs and tiles. The company has an installed capacity of 7.35 lakh sq. mtr per year for granite slabs and 3.60 lakh sq. mtr for granite tiles. Quartz processing capacity is 1.8 lakh square metres per year. Its major export markets are USA, Poland, Germany, Italy, and Australia.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total operating income	225.74	163.90	52.0
PBILDT	31.08	19.05	9.0
PAT	8.91	-5.72	1.3
Overall gearing (times)	1.02	1.16	1.05
Interest coverage (times)	3.92	1.49	2.31

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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	70.50	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 2023-2024	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
1	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)CARE A3 (15-Jan-21) 2)Withdrawn (15-Jan-21)
2	Fund-based-Short term	ST	-	-	-	-	-	1)CARE A3 (15-Jan-21) 2)Withdrawn (15-Jan-21)
3	Fund-based - LT- External commercial borrowings	LT	-	-	-	-	-	1)CARE BBB-; Stable (15-Jan-21) 2)Withdrawn (15-Jan-21)
4	Fund-based - LT-Term loan	LT	70.50	CARE BB+; Stable	-	1)CARE BB+; Stable (09-Feb-23) 2)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 A4+ (09-Feb-23) 2)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 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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About us:

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