

Pacific Industries Limited

April 01, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	11.68 (Reduced from 22.32)	CARE BBB-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	26.80 (Reduced from 33.00)	CARE BBB-; Stable / CARE A3	Reaffirmed
Short Term Bank Facilities;	23.00 (Enhanced from 14.00)	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Pacific Industries Limited (PIL) 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. Further, the ratings also derive strength from PIL's moderate profitability, comfortable capital structure and adequate liquidity.

The ratings, however, continue to remain constrained on account of moderation in PIL's scale of operations in FY23 as well as 9MFY24, moderate debt coverage indicators, susceptibility of profitability to fluctuations in forex exchange as well as its presence in highly competitive industry and prospects linked to real estate sector.

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 along with PBILDT margin above 13% on sustained basis.
- Improvement in working capital cycle below 100 days.

Negative factors

- Decline in scale of operations with TOI below Rs. 140 crore or decline in PBILDT margin below 7.00% on a sustained basis.
- Deterioration in capital structure with overall gearing above 1.50x.
- Increase in working capital cycle above 180 days.

Analytical approach: Standalone

Outlook: Stable

CARE Rating Limited (CARE Ratings) believes that the entity shall continue to benefit from the extensive experience of the promoters in the granite and quartz industry.

Detailed description of the key rating drivers:

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 concerns include Ojaswi Marbles and Granites Private Limited, Geetanjali Marble, Krishna Marble, Pacific Exports, Pacific Leasing and Research Limited, Yash Processors Private Limited, Pacific Iron manufacturing Limited, Chaitanya international Mineral LLP and Geetanjali University.

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.

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

Established track record of operations and diversified product portfolio

PIL was incorporated in the year 1989 and has a track record of more than 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 Unit.

Further, the company offers diversified products which includes variety of North Indian and South Indian granites 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 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 2075.64 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 profitability albeit moderation in scale of operations

PIL's Total operating income (TOI) declined by 35% y-o-y to Rs. 184.11 crores as against Rs.285.40 crore in FY22. The decline was on account of decrease in quartz sales due to levying of anti-dumping duty in July 2022 by U.S. Department of Commerce and no sales from trading of iron ore in FY23. The anti-dumping duty was subsequently reversed in January 2023. In 9MFY24, PIL achieved sales of Rs. 134.93 crores. PBILDT margin of PIL moderated by 322 bps to 7.55% in FY23 as against 10.46% in FY22 on account of higher raw material cost as well as lower absorption of overhead costs. However, in 9MFY24, PBILDT margin improved to 13.94% on the back of lower manufacturing expenses.

Comfortable capital structure albeit moderate debt coverage indicators

The capital structure of PIL improved with overall gearing of 0.43x as on FY23 end (1.25x in FY22). Improvement in overall gearing was on account of successful completion of rights issue of Rs.47.53 crore in February 2023 which resulted in augmentation of networth base as well as reduction in o/s debt with repayment of USL from directors/ subsidiaries and repayment of working capital borrowings. The debt coverage indicators however continued to remain moderate in FY23 due to lower profitability with PBILDT interest coverage of 1.72x (4.50x in FY22) and total debt/ GCA of 5.53x (6.20x in FY22).

Key weaknesses**Presence in highly competitive industry**

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 western 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 many unorganized players and the granite industry is a fragmented industry which results in intense competition. Further, the company has ventured into manufacturing and distribution of Quartz stone which reduces the competition from unorganized players 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 ~82% of TOI from export in FY23. 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.

Prospects linked to cyclical real estate sector

As the entity is mainly involved in exports to USA, it is exposed to the risk of slowdown in demand of its products which is directly related to real estate sector in USA. Furthermore, the real estate sector is cyclical in nature. Also, any imposition of anti-dumping duty going forward may also impact performance of players in this industry.

Liquidity: Adequate

The liquidity of PIL continued to remain adequate marked by healthy cash flow from operations of Rs.20.92 crore and moderate utilisation of working capital limits. PIL is expected to generate cash accruals in the range of Rs.19.00-24.00 crore from FY24 to FY26 against debt repayment obligations in the range of ~Rs.5.00- Rs.12.00 crore.

The operating cycle of the company remained high at 168 days (104 days in FY22) on account of inventory period of 142 days. 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. Also, PIL had o/s receivables of Rs.46.00 crore as on FY23 end due to higher sales in the last quarter. Average utilization of its working capital bank borrowings was moderate at 85% during last 12 months ended February 2024.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Withdrawal Policy](#)

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). In November 2020, PIL 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, 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, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	285.40	184.11	134.93
PBILDT	29.85	13.91	18.21
PAT	9.45	1.04	6.48
Overall gearing (times)	1.25	0.43	NA
Interest coverage (times)	4.50	1.72	5.78

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: ICRA has conducted the review on the basis of best available information and has classified the PIL as "Non cooperating" vide its press release dated July 26, 2023.

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 (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	10.39	CARE BBB-; Stable
Fund-based - LT-Working capital Term Loan		-	-	30/11/2024	1.29	CARE BBB-; Stable
Fund-based - LT/ ST-EPC/PSC		-	-	-	26.80	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Forward Contract		-	-	-	5.00	CARE A3
Non-fund-based - ST-Letter of credit		-	-	-	18.00	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 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	Fund-based - LT-Term Loan	LT	10.39	CARE BBB-; Stable	1)CARE BBB-; Stable (03-Apr-23)	1)CARE BBB-; Stable (05-Apr-22)	-	1)CARE BB+; Stable (23-Feb-21)
2	Fund-based - LT/ ST-EPC/PSC	LT/ST	26.80	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (03-Apr-23)	1)CARE BBB-; Stable / CARE A3 (05-Apr-22)	-	1)CARE BB+; Stable / CARE A4+ (23-Feb-21)
3	Non-fund-based - ST-Letter of credit	ST	18.00	CARE A3	1)CARE A3 (03-Apr-23)	1)CARE A3 (05-Apr-22)	-	1)CARE A4+ (23-Feb-21)
4	Fund-based - LT-Working capital Term Loan	LT	1.29	CARE BBB-; Stable	1)CARE BBB-; Stable (03-Apr-23)	1)CARE BBB-; Stable (05-Apr-22)	-	-
5	Non-fund-based - ST-Bank Guarantee	ST	-	-	1)Withdrawn (03-Apr-23)	1)CARE A3 (05-Apr-22)	-	-
6	Non-fund-based - ST-Forward Contract	ST	5.00	CARE A3	1)CARE A3 (03-Apr-23)	1)CARE A3 (05-Apr-22)	-	-

LT: Long term; ST: Short term; LT/ST: 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 - LT-Working capital Term Loan	Simple
3	Fund-based - LT/ ST-EPC/PSC	Simple
4	Non-fund-based - ST-Forward Contract	Simple
5	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 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.

Contact us

Media Contact	Analytical Contacts
<p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Pradeep Kumar V Senior Director CARE Ratings Limited Phone: +91-44-2850 1001 E-mail: pradeep.kumar@careedge.in</p>	<p>Kalpesh Ramanbhai Patel Director CARE Ratings Limited Phone: +91-079-4026 5611 E-mail: kalpesh.patel@careedge.in</p> <p>Anuja Parikh Assistant Director CARE Ratings Limited Phone: +91-079-4026 5616 E-mail: anuja.parikh@careedge.in</p> <p>Rajat Jain Rating Analyst CARE Ratings Limited E-mail: Rajat.Jain@careedge.in</p>

About us:

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