

## Jyothi Quartz Surfaces

June 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	48.00	CARE BB-; Stable	Assigned
Long Term / Short Term Bank Facilities	10.00	CARE BB-; Stable / CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Jyothi Quartz Surfaces (JQS) are tempered by short track record of operations, leveraged capital structure, presence in highly competitive industry, susceptibility of raw material prices to volatility, geographical and customer concentration risk, and working capital intensive business. The ratings, however, derive comfort from experienced promoters having established relationship in the market, improving scale of operations, and stable industry outlook.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Increase in the total operating income (TOI) to Rs. 70 crore with PBILDT margin above 15% on a sustained basis.
- Overall gearing improving to less than 2x.

#### Negative factors

- Overall gearing deteriorating above 3x on a continuous basis.
- Decline in the total operating income (TOI) or continued net losses resulting in further stretch on firm's liquidity.

### Analytical approach: Standalone

#### Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that JQS will benefit from extensive experience of its promoters in the industry.

### Detailed description of the key rating drivers:

#### Key weaknesses

#### Short track record of operations and constitution as a partnership concern

JQS was incorporated as a partnership entity in 2018 and commenced its commercial operations in 2022. With a limited track record of operations and reliance on unsecured funds from promoters and related parties, monitoring the entity's future performance remains crucial from a rating perspective. Additionally, as a partnership firm, it also faces the inherent risk of partners withdrawing capital, and the firm being dissolved upon the retirement, insolvency, or demise of a partner. The firm also has limited financial flexibility due to the nature of its constitution. However, it is observed that the partners are resourceful and have been infusing funds into the entity year after year.

#### Leveraged capital structure

The capital structure of the entity is leveraged with an overall gearing ratio of 3.29x as of March 31, 2024 (PY: 2.88x). This moderation is due to additional term loans availed by JQS. However, the financial profile of the entity is expected to improve going forward, backed by healthier profitability and scale of operations. The interest coverage ratio of the entity remained moderate at 1.56x in FY24 (PY: 1.23x).

#### Increasing competitive pressure in industry with regulatory risk

Engineering quartz business is highly fragmented and competitive, with presence of large number of organised and unorganised players, resulting in intense competition. As the entity is primarily exports to the USA, it also faces geographical concentration risk and regulatory risks, such as increase in import duties imposed by the USA govt. Although presently, higher antidumping and countervailing duties on Chinese manufacturers have provided Indian quartz manufacturers with greater export opportunities in the US market.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### **Susceptibility of margins to volatility in raw material prices and foreign exchange rate fluctuations**

Raw material is the major cost component in quartz slab manufacturing, forming approximately 60% of its Total Operating Income (TOI), and determines the cost competitiveness of operations. The major raw materials include ground quartz (grains), polyester resins, and titanium dioxide, whose prices are volatile in nature. Therefore, any adverse movement in these prices can put pressure on the company's profit margins. Furthermore, JQS is a net exporter and does not have an active hedging policy, which exposes its profits to fluctuations in foreign exchange rates.

### **Working capital intensive business**

The working capital cycle of JQS remains elongated, standing at 186 days in FY24 (PY: 220 days). The company's inventory days were higher, at 203 days in FY24 (PY: 255 days). Since the majority of the company's business is in the US region, any disruption related to export routes can significantly impact its operations.

### **Geographical and customer concentration of revenue**

JQS's top 5 customers accounted for 72% of its net sales in FY24, reflecting a concentrated customer base primarily consisting of traders and merchant exporters. The firm derives the majority of its net sales from exports, due to the higher acceptance of quartz slabs as the preferred material for countertops in the export market, particularly in the USA. This also exposes the company to geographical concentration of revenue. However, the company plans to expand its market by catering to demand in other regions, such as Canada and European countries, in the near future.

## **Key strengths**

### **Experienced and resourceful partners**

JQS was incorporated by Mr. Sidda Raghava Rao and Mr. Sidda Sudheer Kumar. Mr. Raghava Rao has over three decades of experience in the surface stone industry, while Mr. Sudheer Kumar is well-versed in the latest processes and technologies. Both partners have been associated with numerous firms, bringing a deep understanding of market dynamics and exposure to various industries. They are also involved in the day-to-day operations of another company, Jyothi Granite Exports India Private Limited, which operates in the surface stone business as well.

The family owns six quarries in Andhra Pradesh and were pioneers in mining and extraction in the state. They possess granite reserves that will last for more than three decades. Their long-established market relationships will also add value to JQS. Both partners are resourceful and will infuse funds as needed.

### **Advanced manufacturing facility**

JQS commissioned Pedrini, Italy – the world's leading equipment company – to install a highly compact, customized AVANTGARDE machinery, the first of its kind in the world. This advanced installation enabled end-to-end integrated processing of engineered quartz surfaces with greater precision and efficiency. Pedrini's customized 145-meter long single line facilitates high precision calibration, polish transversal, and transpositional trimming of slabs, significantly increasing manufacturing capacity. The facility also features two fully automated casting lines, ensuring high efficiency and minimal errors.

### **Sustainable manufacturing processes**

JQS's processes are energy-efficient and align with the Government of India's sustainable development goals. To ensure optimal energy usage and an uninterrupted 24x7 power supply, the company has installed solar panels at their facility in Ongole, Andhra Pradesh. This initiative strengthens the company's commitment to zero waste, as they reuse up to 98% of water in the manufacturing of quartz.

### **Improving scale and profitability of the company in the projected period**

The total operating income (TOI) of the entity increased from Rs. 19 crore in FY23 to Rs. 51.6 crore in FY24, primarily due to FY24 being the first full year of operations and supported by high demand for engineered quartz slabs in export markets. However, the company reported net losses in FY24 due to higher interest costs and depreciation. Going forward, starting from the current financial year, TOI is expected to further improve due to exports to other geographic regions, and the entity is anticipated to achieve positive net profit after tax. PBILDT margins are expected to remain stable, in the range of 15-20%.

### **Stable industry outlook**

The quartz slabs industry, a pivotal segment of the engineered stone market, has witnessed remarkable growth in recent decades. Market analysis suggests that the global quartz market is projected to grow at a compound annual growth rate (CAGR) of approximately 6-8% over the next decade. This anticipated growth is fuelled by rising demand in both residential and commercial construction sectors, particularly in emerging markets characterized by rapid urbanization and infrastructure development. Furthermore, advancements in manufacturing technologies, along with innovative product offerings and an increasing focus on sustainability, are pivotal factors contributing to the stable growth outlook for the quartz slabs industry.

### **Liquidity: Stretched**

The liquidity position of JQS remains stretched, characterized by closely matched accruals against projected repayment obligations. The firm is anticipated to generate gross cash accruals (GCA) of Rs. 6-7 crore against debt repayment of Rs. 5.89 crore in the near term. Debt servicing also remains contingent upon the timely infusion of funds by the partners if the entity fails

to generate the envisaged cash accruals. Additionally, liquidity is further hindered by highly utilized working capital limits, a leveraged capital structure, and negative operating cash flows.

**Assumptions/Covenants:** Not Applicable

**Environment, social, and governance (ESG) risks:** Not Applicable

### Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Nonfinancial Sector](#)

[Short Term Instruments](#)

### About the company and industry

#### Industry classification

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

Jyothi Quartz Surfaces (JQS), based in Ongole, Andhra Pradesh, was established as a partnership firm in December 2018 under the leadership of Mr. Sidda Raghava Rao and Mr. Sudheer Kumar. JQS is engaged in the manufacturing and export of engineered quartz slabs, primarily to the USA. The company has the largest facility for engineered quartz surfaces in India, with an installed capacity of 60,000 slabs per annum.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	19.03	51.64
PBILDT	4.24	9.70
PAT	-17.03	-3.24
Overall gearing (times)	2.88	3.29
Interest coverage (times)	1.23	1.56

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

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

**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-Cash Credit		-	-	-	10.00	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	June 28, 2031	38.00	CARE BB-; Stable
Fund-based - LT/ST-Packing Credit in Foreign Currency		-	-	-	10.00	CARE BB-; Stable / 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 2024-2025	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
1	Fund-based - LT/ST-Packing Credit in Foreign Currency	LT/ST	10.00	CARE BB-; Stable / CARE A4				
2	Fund-based - LT-Cash Credit	LT	10.00	CARE BB-; Stable				
3	Fund-based - LT-Term Loan	LT	38.00	CARE BB-; Stable				

LT: Long 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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/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](mailto:care@careedge.in) for any clarifications.

### Contact Us

<b>Media Contact</b>  Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a>	<b>Analytical Contacts</b>  Karthik Raj K Director <b>CARE Ratings Limited</b> Phone: 080 46625555 E-mail: <a href="mailto:karthik.raj@careedge.in">karthik.raj@careedge.in</a>
<b>Relationship Contact</b>  Saikat Roy Senior Director <b>CARE Ratings Limited</b> Phone: 91 22 6754 3404 Email: <a href="mailto:saikat.roy@careedge.in">saikat.roy@careedge.in</a>	Nivedita Anirudh Ghayal Associate Director <b>CARE Ratings Limited</b> Phone: 914040102031 E-mail: <a href="mailto:nivedita.ghayal@careedge.in">nivedita.ghayal@careedge.in</a>
	Amit Jethwani Rating Analyst <b>CARE Ratings Limited</b> E-mail: <a href="mailto:Amit.Jethwani@careedge.in">Amit.Jethwani@careedge.in</a>

### About us:

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