

Mahi Granites Private Limited

March 21, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	11.95 (Reduced from 17.84)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	70.00	CARE BBB; Stable / CARE A3+ (Triple B ; Outlook: Stable/ A Three Plus)	Reaffirmed
Short Term Bank Facilities	17.75	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	99.70 (Rs. Ninety-Nine Crore and Seventy Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of Mahi Granites Private Limited (MGPL) continues to derive strength from increase in the scale of operations during FY21(refers to the period April 01 to March 31), stable profitability margins, satisfactory capital structure and debt coverage indicators, experienced promoters with established track record, established distribution network in US market and stable industry outlook.

The ratings, however, are constrained by geographical concentration risk, elongated working capital cycle, volatility in raw material prices and exposure to forex fluctuations.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in total operating income above Rs. 300 crore on a sustained basis with PBILDT margin of 13-13.50%.
- Improvement in working capital cycle days below 90 days on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- The overall gearing of the company going above 1.50x on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established track record:

MGPL was set up in 2004 by Mr. G Krishna Rao who is a chartered accountant by qualification and has been present in the granite industry for more than a decade. The business operation of MGPL benefits from the long-established track record of the promoter in the granite industry and the vast industry network developed over the years.

Established granite slab distribution warehouses in USA:

MGPL has three granite slab distribution warehouses established in USA to tap the export market for finished granite slabs. The majority of revenue (around 98% in FY21) for the company comes from the US market at the back of its established client base. Each warehouse stocks an average inventory of around \$ 1 million at any given point of time, in order to meet the requirement of its clients.

Increase in the scale of operations with stable profitability margins during FY21:

The total operating income of the company increased by 31% from Rs.214.41 crore during FY20 to Rs.280.43 crore during FY21 at the back of increase in the sale of the products (Granite & Quartz stone) in the US market. The revenue from granite and quartz stone increased from Rs.92.89 crore and Rs.115.93 crore during FY20 to Rs.138.04 crore and Rs.142.13 crore during FY21 respectively. Due to increase in the revenue, the PAT of the company increased by 100% from Rs.6.50 crore during FY20 to Rs.12.96 crore during FY21. The PBILDT margin of the company remained stable and declined marginally by 70 bps from 11.20% during FY21 to 10.50% during FY21. The PAT margin of the company increased by 159 bps from 3.03% during FY20 to 4.62% during FY21 due to decrease in the interest and tax expense. During H1FY22, the company achieved revenue of Rs.178.64 crore and PBILDT margin & PAT margin stood at 9.71% and 4.95% respectively.

Satisfactory capital structure and debt coverage indicators:

The capital structure marked by overall gearing of the company remains moderate at 0.97x as on March 31, 2021 against 1.03x as on March 31, 2020. The debt profile of the company consists of term loans, hire purchase loans and working capital borrowings. The PBILDT interest coverage ratio of the company remains comfortable at 3.34x during FY21 against 2.62x during FY21. The debt coverage indicators such as total debt/PBILDT and total debt/GCA of the company improved to 3.36x and 5.31x during FY21 against 3.89x and 8.55x during FY20 at the back of improvement in the PBILDT and GCA level.

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

Industry Outlook: Stable

The growth of quartz countertops usage is expected to be pushed by rebound in new building construction, increased spending on remodeling projects, a shift in the product mix from laminates to higher priced alternative materials, increasing application in kitchen and surging penetration across various regions. Demand for quartz in India is mostly limited to five-star hotels and high-end homes but with increasing awareness regarding the benefits of quartz over other stones, the scenario is expected to change in medium to long term. On the other hand, due to higher antidumping and CVD on Chinese manufactures up to over 500% have provided Indian quartz manufacturers a greater opportunity for exports in the US market.

Key Rating Weaknesses

Export oriented unit with geographical concentration:

MGPL is an Export Oriented Unit (EOU) and export sales account for almost 99% of total sales of the company. The exports further remain geographically concentrated to USA which accounted for close to 98% of the total exports in FY21

Elongated working capital cycle:

The companies operating in the granite industry usually have elongated working-capital cycle due to high inventory holding period since the company usually maintains inventory of 3-4 months in order to meet the requirements of the customers. Accordingly, the working capital cycle of MGPL continues to stand elongated at 146 days during FY21, however, improved from 186 days in FY20. Further, the average working capital utilization is 93% for the 12 months ending January 31, 2022.

Volatility in raw material prices with limited pricing flexibility:

During FY21, the company procured raw materials from one of the company's operating quarry in Vizag, Andhra Pradesh and from the domestic market. The competition in the domestic market is high which restricts the bargaining power with the suppliers. Further, the prices of granite blocks are volatile in nature and have limited price flexibility, this restricts the company's ability to pass on the increased input cost to its customers. This exerts pressure on company's profitability and exposes it to the risk associated with volatility in the input prices.

Exposure to forex fluctuation:

The company has high export-import transactions and thus, the business is exposed to volatility in movement of foreign exchange rates. However, the company has natural forex hedge of around 10-15% (of total exports) in the form of forex payout (RM purchases, interest payments and lease payments). The company has incurred forex loss of Rs.0.50 crore during FY21 against forex gain of Rs.1.78 crore during FY20. The company does not undertake any hedging as majority of its payments are done in foreign currency

Liquidity: Adequate

The liquidity of the company is adequate considering sufficient generation of gross cash accruals against repayment obligation. The company has generated cash accruals of Rs. 11.64 crore during H1FY22 (Unaudited) against repayment obligation of Rs.8.62 crore for FY22 and is meeting its debt obligations with the help of cash accruals. The company has cash and bank balance of Rs.13.65 crore as on September 30, 2021.

Analytical approach: Standalone financials of Mahi Granites Private Limited are considered for analysis.

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](#)

About the Company

Mahi Granites Private Ltd. (MGPL), incorporated in 2004, is based out of Hyderabad and has been promoted by Shri G. Krishna Rao. MGPL is an ISO 9000-2001 certified company engaged in the business of processing (installed capacity of 4,00,000 square meters p.a.) and polishing of granite blocks for slabs & tiles. MGPL has also set up a fully automated processing plant for production of quartz stone with an aggregate capacity of around 240 slabs per day. The company is an Export Oriented Unit (EOU) with its major export destinations being USA.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	214.41	280.43	178.64
PBILDT	24.01	29.43	17.35
PAT	6.50	12.96	8.84
Overall gearing (times)	1.03	0.97	NA
Interest coverage (times)	2.62	3.34	NA

A: Audited; UA: Unaudited; NA: Not 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 for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	70.00	CARE BBB; Stable / CARE A3+
Fund-based - ST-Standby Line of Credit		-	-	-	10.45	CARE A3+
Non-fund-based - ST-ILC/FLC		-	-	-	5.00	CARE A3+
Fund-based - LT-Term Loan		-	-	July 2025	11.95	CARE BBB; Stable
Non-fund-based - ST-Credit Exposure Limit		-	-	-	2.30	CARE A3+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	70.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (15-Mar-21) 2)CARE BBB / CARE A3+ (CWN) (06-May-20) 3)CARE BBB; Stable / CARE A3+ (01-Apr-20)	-	1)CARE BBB; Stable / CARE A3+ (01-Mar-19)
2	Fund-based - ST-Standby Line of Credit	ST	10.45	CARE A3+	-	1)CARE A3+ (15-Mar-21) 2)CARE A3+ (CWN) (06-May-20) 3)CARE A3+ (01-Apr-20)	-	1)CARE A3+ (01-Mar-19)
3	Non-fund-based - ST-ILC/FLC	ST	5.00	CARE A3+	-	1)CARE A3+ (15-Mar-21) 2)CARE A3+ (CWN)	-	1)CARE A3+ (01-Mar-19)

						(06-May-20)		
						3)CARE A3+ (01-Apr-20)		
4	Fund-based - LT-Term Loan	LT	11.95	CARE BBB; Stable	-	1)CARE BBB; Stable (15-Mar-21) 2)CARE BBB (CWN) (06-May-20) 3)CARE BBB; Stable (01-Apr-20)	-	1)CARE BBB; Stable (01-Mar-19)
5	Non-fund-based - ST-Credit Exposure Limit	ST	2.30	CARE A3+	-	1)CARE A3+ (15-Mar-21) 2)CARE A3+ (CWN) (06-May-20) 3)CARE A3+ (01-Apr-20)	-	1)CARE A3+ (01-Mar-19)

*Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3	Fund-based - ST-Standby Line of Credit	Simple
4	Non-fund-based - ST-Credit Exposure Limit	Simple
5	Non-fund-based - ST-ILC/FLC	Simple

Annexure 5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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

Name – Mr. Mradul Mishra
Contact no. - +91-22-6754 3596
Email ID - mradul.mishra@careedge.in

Analyst Contact

Group Head Name - Prasanna Krishnan
Group Head Contact no.- 040-67937421
Group Head Email ID- prasanna.krishnan@careedge.in

Relationship Contact

Name: Ramesh Bob Asineparthi
Contact no.: +91 90520 00521
Email ID: ramesh.bob@careedge.in

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