Pacific Industries Limited

February 23, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	9.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities	13.00	CARE BB+; Stable / CARE A4+ (Double B Plus; Outlook: Stable/ A Four Plus)	Revised from CARE BB-; Stable / CARE A4 (Double B Minus; Outlook: Stable / A Four)
Short Term Bank Facilities	6.00	CARE A4+ (A Four Plus)	Revised from CARE A4 (A Four)
Total Bank Facilities	**28.00 (Rs. Twenty-Eight Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Pacific Industries Limited (PIL) have been revised on account of improvement in scale of operations with improvement in profitability margin in 9MFY21.

The ratings, however, continue to remain constrained on account of moderate solvency position, stretched liquidity position and prospects linked to cyclical real estate sector. The ratings, further, continue to remain constrained on account of risk associated with availability of raw material and foreign exchange fluctuation and its presence in the highly competitive granite industry.

The ratings, however, continue to derive strength from the experienced management with strong group presence, established track record of operations with diversified product portfolio and location advantage with ease of availability of raw material and labor.

Rating Sensitivities

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

- Sustained Improvement in scale of operations with Total Operating Income above Rs.150 crore with maintain profitability margins at current level.
- Sustained improvement in capital structure marked by overall gearing below 0.75 times
- Improvement in working capital cycle below 150 days.

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

- Decline in scale of operations below Rs.70.00 crore with current level of profitability margins.
- 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 and/or elongation in its operating cycle on a sustained basis
- Increase in working capital cycle above 300 days.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate solvency position

The capital structure of the company remained comfortable with an overall gearing of 1.04 times as on March 31, 2020, improved from 1.38 times as on March 31, 2019 owing to higher increase in net worth of the company due to increase in share capital and security premium as against increase in total debt due to addition in term loan for setting up a unit for processing of quartz. Out of the total debt of Rs.92.32 crore, unsecured loans from directors and group concern comprises of Rs.53.84 crore, term and vehicle loan of Rs.25.67 crore and balance working capital bank borrowings.

Further, the debt coverage indicators remained moderate with total debt to GCA at 12.86 times as on March 31, 2020, improved from 15.27 times as on March 31, 2019 mainly on account of higher proportionate increase in GCA level than total debt level. Also, the interest coverage ratio remained modest at 2.22 times during FY20 as against 2.45 times in FY19 due to higher increase in interest and finance expenses than in PBILDT level.

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 demand in real estate sector in USA. Owing to imposition of preliminary duties by US DOC, the imports from India were severely impacted. However, the demand scenario improved post opening of window for duty free imports by US (was available for February 2020 to June 2020) and thereafter post-finalisation of tariff at relatively lower rates in June 2020. Further, the Indian manufacturers are also likely to be benefitted on account of higher duty (more than 300% duty) imposed by US on imports of quartz slabs from China. Despite Covid-19 pandemic, housing market in US has witnessed higher sales in the current year on the back of higher demand and very low interest rates. However, any slowdown in demand from real estate industry which is cyclical in nature would be crucial with regard to credit perspective.

Risk associated with availability of raw material and foreign exchange fluctuation

The inherent risk associated with this industry is that it is very difficult to procure the same quality of granite from the mines on a consistent basis. The availability of the appropriate quality and quantity of the raw material depends upon the mining operations as granites are natural products with limited reserves.

Further, PIL is exposed to foreign exchange fluctuation risk considering that the company generated 58.46% of net sales from export in FY20. 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.

Presence in a highly competitive granite industry

Currently size of the Indian Marble & Granite Industry is about Rs.20,000 crore and it 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.

Key Rating 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 12 years of experience in the industry. Further, the promoters are supported with the experienced second-tier management.

The company belongs to Udaipur based Pacific 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, CARE BBB+; Stable/CARE A2).

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 Unit.

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 labor

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.

Improvement in scale of operations during FY21

The scale of operation of the company remained stagnant in FY20 over FY19 from Rs.103.14 crore in FY19 to Rs.104.11 crore owing to no major sales of quartz slabs due to imposition of anti-dumping duty in FY19. However, the demand scenario improved post opening of window for duty free imports by US (was available for February 2020 to June 2020) 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. Due to it, in 9MFY21, the scale of operations of the company has ramped with TOI stood at Rs.109.39 crore as against Rs.79.80 crore in 9MFY20 and Rs.104.11 crore in FY20.

During FY20, it has generated 41.54% of net sales from domestic market (48.28% in FY19) and remaining 58.46% of net sales from export (51.72% in FY19). During FY20, it has generated 55.06% from sale of granite slabs and blocks (65.15% in FY19), 28.12% of net sales from trading of iron ore (34.85% in FY19) and 16.81% of net sales from quartz slabs (Nil in FY19). Further, in 9MFY21, the company has registered 99% of net sales from processing of quartz and granite (61.88% of net sales in 9MFY20) and remaining from trading of iron ore.

Moderate profitability margins

During FY20, PBILDT margin of the company stood moderate at 12.27%, improved by 281 bps in FY20 over FY19 owing to lower trading activity where margins are lower and higher other income. Other income includes share in profit & loss in company, interest income and exchange rate fluctuations. Despite improvement in PBILDT margin, PAT margin has declined by 108 bps over FY19 owing to higher depreciation and finance expenses pertaining to completion of its project for manufacturing of quartz slabs. Further, the GCA level has increased by 26.49% in FY20 over FY19 and stood comfortable at Rs.7.18 crore.

During 9MFY21, profitability margin of the company stood moderate with PBILDT margin and PAT margin of 15.84% and 5.53% respectively as against 12.69% 0.89% during 9MFY20. PBILDT margin has increased owing to higher sales of quartz slabs which has better margin and almost nil trading activity.

Liquidity: Stretched

The liquidity position of the company stood stretched marked by average utilization of its working capital bank borrowings of 92% during last 12 months ending December 2020 and elongated operating cycle of 257 days in FY20 owing to high inventory and collection period, although improved from 265 days in FY19. 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 stone. Out of the total inventory of Rs.55.84 crore as on March 31, 2020, the finished goods comprises of Rs.38.08 crore as against finished goods of Rs.26.21 crore in FY19. Due to it, the current ratio and quick ratio stood moderate at 2.31 times and 1.18 times respectively as on March 31, 2020 as against 1.62 times and 0.92 times as on March 31, 2019.

However, it has net cash flow from operating activities of Rs.7.27 crore and cash and bank balance of Rs.1.38 crore as on March 31, 2020. It has projected gca of Rs.13.76 crore against repayment of Rs.6.40 crore during FY21. It has not availed any moratorium or any enhancement during lockdown on account of Covid-19.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology - Manufacturing Companies]
[Financial ratios – Non-Financial Sector]
[Liquidity Analysis of Non-Financial Sector Entities]

About the Company
Udaipur (Rajasthan) based PIL was incorporated in 1989 by Mr. J.P Agarwal along with other family members. In 2001, the company was listed in BSE. PIL is engaged in the business of manufacturing, processing and trading of marble, granite and natural sandstone. The processing plant of the company is located at Udaipur and Bangalore respectively and has an installed capacity to process 12000 Tonnes Per Annum (TPA) of marble slabs and tiles. The company majorly exports its products in USA, Europe, Indonesia, Vietnam and Middle East and imports granite from Italy and China.
Further, in FY17, the company formed two 100% wholly owned subsidiary namely, 'Gaze Fashiontrade Limited' and 'Gist Minerals & Technologies Limited'. Subsequently, in March, 2017, the wholly owned subsidiary acquired four companies; Biswas Solar Instrument Private Limited, Blood Hound Security Company Private Limited, Radhkia Vyapaar Private Limited and Saha Coloured & Falvour Spirit Manufacture Private Limited. During November 2020, it has incorporated a wholly owned subsidiary in USA in the name of Taanj Quartz INC for marketing of quartz.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	103.14	104.11
PBILDT	9.75	12.77
PAT	1.30	0.19
Overall gearing (times)	1.38	1.04
Interest coverage (times)	2.45	2.23

A: Audited

Status of non-cooperation with previous CRA:
ICRA has placed its ratings under non-cooperation due to non-submission of requisite information by the company vide its press release dated February 17, 2021.

Any other information: None

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	December – 2025	9.00	CARE BB+; Stable
Fund-based - LT/ ST-EPC/PSC	-	-	-	13.00	CARE BB+; Stable / CARE A4+
Non-fund-based - ST-Letter of credit	-	-	-	6.00	CARE A4+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	9.00	CARE BB+; Stable	-	1)CARE BB-; Stable (20-Mar-20)	1)CARE BB-; Stable (19-Feb-19)	1)CARE BB-; Stable (21-Dec-17)
2.	Fund-based - LT/ ST-EPC/PSC	LT/ST	13.00	CARE BB+; Stable / CARE A4+	-	1)CARE BB-; Stable / CARE A4 (20-Mar-20)	1)CARE BB-; Stable / CARE A4 (19-Feb-19)	1)CARE BB-; Stable / CARE A4 (21-Dec-17)
3.	Non-fund-based - ST-Letter of credit	ST	6.00	CARE A4+	-	1)CARE A4 (20-Mar-20)	1)CARE A4 (19-Feb-19)	1)CARE A4 (21-Dec-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities - None

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-EPC/PSC	Simple
3.	Non-fund-based - ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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