Aro Granite Industries Limited

March 31, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	74.00 (Enhanced from 50.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	130.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	204.00 (Rs. Two Hundred Four Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Aro Granite Industries Limited (Aro) draw strength from company's long operational track record, established relationship with customers, geographically well diversified customer profile and comfortable capital structure albeit moderation owing to debt funded capex and higher working capital utilization. The rating also takes note of successful commissioning of quartz plant expansion undertaken by the company to diversify its product portfolio. The ratings are however constrained by working capital intensive operation owing to high collection period and inventory holding, exchange rate fluctuation risk, intense competition in the granite industry and irregular availability of quality raw material in domestic market.

Rating Sensitivities

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

- Improvement in total operating income (TOI) to above Rs.250 crore while maintaining PBIDT margin at existing levels
- Improvement in liquidity profile by optimising working capital utilisation with average utilisation not exceeding 80%.

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

- Deterioration in overall gearing to above 1.25x
- Decline in scale of operations or profitability margin to below Rs.150.00 crore or 10% respectively, in future

Detailed description of the key rating drivers

Key Rating 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, starting operations with 72,000 sq. MT p.a. of granite tile in 1991 and the company now operates two units with an installed capacity of 7.35 Lakh sq.mtr per year for granite slabs and 3.60 lakh sq.mtr for granite tiles. Aro also processes Quartzite stone in its Hosur plant with a production capacity of 50,000 square meters per year.

Diversified customer profile and products

Aro's client base is spread across more than 45 countries including USA, Europe, Africa and Russia among others. Major share of sales (approximately 90%) for Aro comes from export markets. Aro receives repeat orders from most of the customers due to its long-standing association resulting in steady growth in business over the years. Company has two major segments namely granite slabs and tiles. Slabs forms a major part of ARO business and contributed 82% to its revenue in FY21. The slab segment of the company will continue to contribute better with rising sales from Jaipur plant along with increased production from quartz unit. Tiles segment has a smaller contribution in Aro's revenue profile accounting for 18% of its revenue in FY21.

Stable operating income with improved profitability margins in FY21

Company's capacity utilization varies each year depending on the granite demand which is further dependent upon various factors like customer preferences towards engineered stone as substitute material to granite, availability etc. The total operating income of the company stood stable at Rs.179.90 crore in FY21(Rs.178.32 crore in FY20). However, profitability during FY21 increased due to reduction in logistic expenses. Furthermore, the TOI of the company improved significantly during H1FY22 to Rs 118 crore having increased from Rs. 75 crore during H1FY21. The operations have also benefitted and grown with commencement of Jaipur plant in October 2019 and quartz plant in January 2021. Jaipur plant has significantly contributed to its top line and its contribution increased from Rs 13.62 Cr in FY20 to Rs 36.19 Cr in FY21 and quartz unit contributed Rs 2.3 Cr in FY21. Furthermore, the company has been focused on clearing old inventories and worked towards only high margin products as there was shortage of labour in Hosur due to ongoing pandemic.

Satisfactory capital structure and debt coverage indicators

The capital structure of the company marked by debt equity ratio and overall gearing moderated and however stood satisfactory and below unity during FY21. The debt equity ratio deteriorated from 0.11x as on March 31, 2019 to 0.26x as on

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

March 31, 2021 on account of term loan availed for Jaipur unit as well as Quartz plant in Hosur unit. The overall gearing also moderated at 0.90x as on March 31, 2021 on account of higher utilization of working capital limits. The PBILDT/ interest coverage ratio stood satisfactory at 4.51x however Total debt/GCA weakened at 8.84x in FY21 primarily due to increase in overall debt levels. Nevertheless, the company continues to generate positive cash flows from operations which stood at around Rs. 8 crore as on March 31, 2021.

Key Rating Weaknesses
Elongated operating cycle
The company is exposed to the long working capital cycle days mainly on account of high inventory and collection period. During FY21, the operating cycle further deteriorated from 369 days in FY20 to 389 days owing to disruptions caused by COVID-19. Given the nature of operations marked by storage of raw material availability, maintaining stocks of different types/shades required by the clients and maintaining adequate level of inventory is necessitated. The company is moving from order driven market to stock & sell market, as the availability of raw material is not guaranteed and has to be procured as and when it is available. Customers are now placing orders based on the available stock with the company and as a result company must maintain the high level of inventory to meet the customer requirements.

Exchange rate fluctuation risk
Since majority of the sales are exports, the company is exposed to foreign exchange risk due to unstable currency fluctuations, which has a direct impact on company's profitability margins. However, the company is naturally hedged to some extent through import of raw materials which accounts for more than 20% of the total raw material consumed. Besides, working capital borrowings are predominately in the nature of PCFC.

Intense competition in the industry with presence of innumerable unorganized players
Globally, granite production is dominated by China, Brazil, India, Saudi Arabia, Italy and Spain. India has abundant resources of granite, which makes her one of the top three granite producers and one of the top five granite exporters in the world. Geologically; the southern and eastern 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 innumerable unorganized players and the granite industry is a fragmented industry which results in intense competition. However, the company operates in the entire value chain of granite industry which includes quarrying, processing and distribution of granite slabs and further has ventured into manufacturing and distribution of Quartz stone which reduces the competition from unorganized players in the industry.

Liquidity: Stretched
The liquidity profile of the company is a tad stretched marred by elongated operating cycle and extensively utilised working capital limits. The average working capital limits are utilisation was more than 95% during past twelve months' period ended October 2021. Although, the company has no CAPEX envisaged in near to medium term and has sufficient gearing headroom to raise debt in future, if needed. Liquidity is however supported by an above unity current ratio of 1.37x with positive cash flow from operating activities ar Rs. 8 cr as on March 31, 2021.

Analytical approach: Standalone

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
Aro Granite Industries Limited (AGIL) was in incorporated in the year 1988. It has been engaged in processing of granite tiles and slabs and exports to more than 50 countries across the world. Company has an 100% Export Oriented Unit (EOU) located in Hosur, Tamilnadu and in 2019. AGIL 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 is now offering engineered stone. AGIL has a wide product portfolio of granite slabs, granite tiles, quartzite slabs, 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. AGIL also processes quartzite stone in its Hosur plant with a production capacity of 50,000 square meters per year. It has granite processing plant in Jaipur with processing capacity of 1,50,000 square meters of granite slabs per year. Company has been awarded with Special Export Award by CAPEXIL for 7 years in a row. Its major export markets are USA, Poland, Germany, Italy, and Australia.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22(UA)
Total operating income	178.32	179.90	175.62
PBILDT	19.13	24.32	25.52
PAT	3.61	6.05	9.06
Overall gearing (times)	0.88	0.90	NA
Interest coverage (times)	3.20	4.52	4.33

A: Audited; UA- Unaudited

Status of non-cooperation with previous CRA: Nil

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-Term Loan		-	-	September 2027	74.00	CARE BBB-; Stable
Fund-based - ST-Packing Credit in Foreign Currency		-	-	-	130.00	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	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A3 (15-Jan-21) 2)Withdrawn (15-Jan-21)	1)CARE A3 (03-Jan-20)	1)CARE A3 (07-Dec-18)
2	Fund-based-Short Term	ST	-	-	-	1)Withdrawn (15-Jan-21) 2)CARE A3 (15-Jan-21)	1)CARE A3 (03-Jan-20)	1)CARE A3 (07-Dec-18)
3	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	1)CARE BBB-; Stable (15-Jan-21) 2)Withdrawn (15-Jan-21)	1)CARE BBB-; Stable (03-Jan-20)	1)CARE BBB-; Stable (07-Dec-18)
4	Fund-based - LT-Term Loan	LT	74.00	CARE BBB-; Stable	1)CARE BBB-; Stable (04-Jan-22)	-	-	-
5	Fund-based - ST-Packing Credit in Foreign Currency	ST	130.00	CARE A3	1)CARE A3 (04-Jan-22)	-	-	-

* 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 - ST-Packing Credit in Foreign Currency	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: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Nivedita Anirudh Ghayal
Contact no.: +91-40-40102030
Email ID: nivedita.ghayal@careedge.in

Relationship Contact
Name: Pradeep Kumar V
Contact no.: +91-98407 54521
Email ID: pradeep.kumar@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**