Aro Granite Industries Limited

January 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	38.99 (reduced from Rs.40.05)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	121.00	**CARE A3 (A Three)**	**Reaffirmed**
Total	**159.99 (Rs. One Hundred and Fifty Nine Crore and Ninety Nine lakh 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) continue to 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 of Jaipur plant. The rating also takes note of successful commissioning of Jaipur plant and the current 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 non-availability of adequate raw material. The rating also factors in company's subdued performance in FY19 and H1FY20 albeit improvement in profitability parameters compared to FY18 owing to growing popularity of engineered stone in the overseas market and irregular supply of quality raw material in domestic market.

Rating Sensitivities

Positive Factors

- Growth in scale of operations while maintaining margins and improving TDGCA to below 5x.

Negative Factors

- Significant debt funded capex or delay in ramp up of production leading to increase in TDGCA to above 10x or decline in Interest Coverage Ratio to below 2.5x.

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 as on September 30, 2019, the company operates two units with an aggregate installed capacity of tiles and slabs at 3.6 lakh sq. m per annum and 8.85 lakh sq. m p.a., respectively. Aro today is one of the largest exporters of processed granite from India.

Subdued operational performance in FY19 and H1FY20 but improvement in profitability: Company's capacity utilization varies each year depending on the granite demand which is further dependent upon various factors like competition, customer preferences towards engineered stone as substitute material to granite etc. During FY19, total operating income witnessed decrease of 13.77% from Rs.201.28 crore in FY18 to Rs. 173.57 crore in FY19. However company's PBILDT margins improved from 6.50% in FY18 to 14.36% in FY19 and company's cash accruals improved from Rs.9.32 crore in FY18 to Rs.17.16 crore in FY19. This was on account of shift in focus of company to accept orders only with higher margins.

During H1FY20, company reported total income of Rs.91.85 crore as against Rs. 86.14 crore in H1FY19, with PBDIT margins of 12.45% in H1FY20 (H1FY19: 11.78%) and GCA improved to Rs. 7.64 crore (H1FY19: Rs. 6.40 crore).

With significant quarries closed down in Southern states, there has been increasing dependence upon procuring raw blocks from Rajasthan resulting in high transport costs. Going forward, improvement in PBDIT margin is expected on account of executing order of higher margin and lower transportation costs post commencement of Jaipur plant. Company also expects pickup in volumes commencement of quartz plant with Aro's already established client base and relationship.

Comfortable capital structure albeit marginal deterioration owing to debt funded capex: Aro's capital structure continues to be comfortably leveraged with overall gearing of 0.82x as on March 2019 against 0.60x as on March 2018. Deterioration in gearing levels is on account of debt funded capex undertaken by the company for Jaipur plant. Company successfully commissioned granite processing plant with capacity of 1.5 lakh sq.m on July 29, 2019 ahead of SCOD of Sep'19.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Further, with company continuing to maintain higher inventory to cope with raw material shortage in domestic market, WC borrowings had increased from Rs.89.03 crore as on Mar'18 to Rs.109.19 crore as on Mar'19. The company's debt profile comprises of working capital borrowings in the form of PCFC and external commercial borrowings resulting in low interest cost which enables them to maintain a higher inventory with inventory being non-perishable in nature.
Overall gearing is expected to remain comfortable with accretion of profit and no debt funded capex planned by the company.
Ongoing expansion plans: Company is currently setting up quartz processing plant with capacity of 1.8 lakh sq.mt. p.a. Company's sales have been impacted in past 3 FY's owing to increased popularity of quartz in various export markets and with setting up of plant, company is expecting to pickup volume of sales. With experience of promoters and Aro's already established client base and relationship, management expects ramp up in production levels in shorter duration. The project is funded entirely out of internal accruals.

Diversified customer Profile and established relationship: Aro's client base is spread across more than 45 countries in USA, Europe, Africa, Russia and other Asian countries. Aro receives repeat orders from most of the customers due to its long term association with them resulting in steady growth in business over the years. Major share of sales (approximately 94%) for Aro comes from export markets. During the year company continued to focus on its existing customers.
With commencement of Jaipur plant and setting up of quartz plant, company would be able to provide increasing portfolio of colours and the same is expected to increase the customer base of the company.

Key Rating Weaknesses

Working capital intensive operations with moderate liquidity position: The company is exposed to the long working capital cycle days mainly on account of high inventory and collection period. During FY19, the operating cycle deteriorated from 342 days in FY18 to 390 days in FY19 owing to increase in inventory and collection period.
With company enjoying low interest cost borrowings and given the non-perishable nature of inventory, company has consciously decided to maintain higher level of inventory on account of shortage of raw material supply in domestic market.
Further, storage of stocks of different types/shades as required by the clients and maintaining adequate level of inventory is necessitated, given the nature of the product. The granite industry has moved 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 deciding the product based on the available stock with the company and as a result company has to maintain the high level of inventory to meet the customer requirements.
Liquidity was also impacted due to delayed GST input credit refund which led to blocking of funds. Company had cash and bank balance of Rs.12.33 crore as on Nov'19 providing additional liquidity.

Exchange rate fluctuation risk: Since majority of the sales are exports, the company faces 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 and have taken ECB of, which are left unhedged owing to foreign receivables. During FY19, company had unrealized forex gain of Rs. 0.61 cr (forex loss of Rs.2.43 cr in FY18).

Prospects of industry: The granite industry is highly fragmented with presence of large number of organized and unorganized player. Indian granite exporters face competition from growing preference of engineered stone and Brazilian granite industry. Granite being a natural stone the key demand drivers for Indian granites worldwide depend on availability of new deposits of granites with new colors and texture, as the same is not available in other countries.
The granite export industry has moved from an order driven market to a stock-and-sell market. This has impacted the dynamics of the industry and increased the working capital requirements. The industry is primarily dependent upon demand from real estate and construction sector across the globe. The real estate industry is cyclical in nature and is exposed to various external factors like the disposable income, interest rate scenario, etc. Any adverse movement in the macro-economic factors may affect the real estate industry and, in turn, business of Aro.

Liquidity: Adequate

Company's working capital cycle is high at 390 days as on March 31, 2019 primarily on account of higher inventory days as company has consciously made decision to maintain higher inventory to overcome raw material shortage in domestic market. Further company's working capital utilization also remains high at 88.34% for past 12 months ended September 2019. However company has healthy cash accruals of Rs.17.1 crore during FY19 and the same is expected to improve going forward with commencement of Jaipur plant and quartz plant as against peak bank's debt repayment of Rs.8.1 crore in FY21. Company also had cash and bank balance of Rs.12.33 crore as on Nov'19 providing additional liquidity.

Analytical approach: Standalone

Applicable Criteria
[CARE's Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's Criteria on assigning Short-term rating]
[Financial ratios: Non-Financial sector]
[CARE's Criteria On Manufacturing Industries]

About the Company
Aro Granite Industries Ltd (Aro) is one of the country's leading exporters of processed granites. It is 100% Export Oriented Unit (EOU) promoted by Mr. Sunil Arora engaged in processing of granite tiles and slabs. Aro has processing facility at Hosur in Tamil Nadu which are certified for ISO 9001:2000 Quality Management Systems by RWTUV, Germany. As on Sep 30, 2019, Aro has aggregate installed capacity of 3.60 Lakh sq. m p. a. for granite tiles and 8.85 Lakh sq. m p.a. for granite slabs.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	201.28	173.57
PBILDT	13.09	24.92
PAT	1.09	9.71
Overall gearing (times)	0.60	0.82
Interest coverage (times)	3.40	4.91

A: Audited
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

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
Non-fund-based - ST-BG/LC	-	-	-	1.00	CARE A3
Fund-based-Short Term	-	-	-	120.00	CARE A3
Fund-based - LT-External Commercial Borrowings	-	-	Aug 2027	38.99	CARE BBB-; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-BG/LC	ST	1.00	CARE A3	-	1)CARE A3 (07-Dec-18)	1)CARE A3 (21-Dec-17)	1)CARE A3 (02-Dec-16)
2.	Fund-based-Short Term	ST	120.00	CARE A3	-	1)CARE A3 (07-Dec-18)	1)CARE A3 (21-Dec-17)	1)CARE A3 (02-Dec-16)
3.	Fund-based - LT-External Commercial Borrowings	LT	38.99	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Dec-18)	1)CARE BBB-; Stable (21-Dec-17)	1)CARE BBB-; Stable (02-Dec-16)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

ECB Loan/PC/PCFC/FBP/FBD/FCBP/FCBD/LC/BG	Detailed explanation
A. Financial covenants	
I. Current Ratio	Minimum current ratio of 1.10 for each year
II. TOL/TNW	TOL/TNW should be maintained at less than 1.00
III. TTL/TNW	TTL/TNW should be maintained at less than 0.50
B. Non-financial covenants	
I. Subordination	All unsecured loans or deposits raised by the company for financing a project are always subordinate to the loans of banks/FIs and should be permitted to be repaid only with prior approval of all the banks and FIs concerned.
II. Undertaking by company	In case long term funds by way of internal accruals are not sufficient to bridge the excess borrowings/margin requirement, the company to bring in additional long term funds into the business.
III. Promoter share pledging	Promoter's shares in the entity should not be pledged to any bank/FI without the consent of the bank.

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

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