

Pacific Industries Limited

February 19, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	2.44	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	5.00	CARE A4 (A Four)	Reaffirmed
Long-term Bank Facilities/ Short-term Bank Facilities	11.00	CARE BB-;Stable/CARE A4 (Double B Minus; Outlook: Stable/A Four)	Reaffirmed
Total facilities	18.44 (Rs. Eighteen crore and forty-four lakh 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) continue to remain constrained on account of its modest scale of operations although growing, moderate profitability margins, moderate debt coverage indicators and working capital intensive nature of operations. The ratings, further, remained constrained on account of the risk associated with availability of raw material, susceptibility of margins to foreign exchange rate, its presence in a highly competitive marble industry and its linkage to cyclical real estate sector.

The ratings, however, continue to derive strength from the experienced and qualified 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. The ratings further continue to derive strength from comfortable capital structure with high net worth base.

The ability of the company to increase its scale of operations while improving its profitability and efficient working capital management would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weakness

Modest scale of operations and moderate profitability margins

The scale of operations of the company remained modest with Total Operating Income (TOI) of Rs.68.89 crore and PAT of Rs.0.83 crore in FY18. In FY18, TOI of PIL has increased marginally by 3.14% over FY17 due to increase in domestic sale of granite slab. Further, PIL registered a TOI of Rs.70.07 crore with PBILDT and PAT margin of 10.82% and 1.41 in 9MFY19.

The profitability margins of the company remained moderate with PBILDT and PAT margin of 11.27% and 1.21% respectively in FY18 as against 8.63% and 0.51% respectively in FY17. Further, the company registered OPAT of Rs.0.94 crore in FY18 against negative OPAT of Rs.0.12 crore in FY17.

Working capital intensive nature of operations and moderate debt coverage indicator

The business of PIL is working capital intensive in nature marked by elongated operating cycle at 413 days in FY18, deteriorated from 398 days owing to increase in inventory holding period and collection period. 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 dependence on bulky imported goods requirement to cater demand on prompt and regular basis. Due to high inventory, current ratio and quick ratio remained comfortable at 2.43 times and 1.11 times as on March 31, 2018. Further, average utilization of the working capital bank borrowing limits stood high at 80-90% for the last 12 months ended January, 2019. Furthermore, the cash and bank balance stood at Rs.1.05 crore as on March 31, 2018.

The debt coverage indicators remained weak with total debt to GCA at 12.96 times as on March 31, 2018, deteriorated from 10.48 times as on March 31, 2017 and the interest coverage ratio remained modest at 2.30 times during FY18.

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 stones 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 marbles and stones are natural products with limited reserves. PIL is exposed to foreign exchange fluctuation risk considering that the company generates entire income in foreign currency and there is no hedging policy in place.

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

Presence in a highly competitive marble industry and linkage to cyclical real estate sector

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.

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 operations of PIL.

Key Rating Strengths

Experienced and qualified management with strong group support

Mr. J P Agarwal, Chairman and Managing Director of PIL, has 28 years 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 which includes, Mr. Ravi Kumar Sharma, finance controller, who is Chartered Accountant by qualification and has 8 years of experience, Mr. Anurag Jain, MBA by qualification, AVP, who has 13 years of experience, Mr. R.G Nagendra, MBA, who looks after the Human Resource management of the company. Mr. Swamy V R, DME (Mechanical), who has two decades of experience and looks after overall factory management. Mr. Shivaraju, diploma in electrical engineering, who has two decades of experience and looks after electrical department of the company. Mr. Rakesh Toshniwal, senior manager of accounts department, having 12 years of experience, Mr. JN Prasad, Manager of purchase and MIS having 8 years of experience in this field and Mr Jugal Kishore Agarwal, having more than a decade of experience and looks after accounting and finance function of the company.

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), Pacific Exports (engaged in mining of iron ore at Katni, Madhya Pradesh) and Geetanjali University (sponsored by Geetanjali University Trust (GUT) to impart medical education).

Established track record of operations with established client base and diversified product portfolio

PIL was incorporated in the year 1989 and hence, has a track record of more than two 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 Center for Development of Stones and Confederation of Export Unit.

Further, the company offers diversified products in marble and granite 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.

Location advantage with ease of availability of raw material and labor

PIL’s processing facility of marbles & granites is situated in Rajasthan and Karnataka and nearer to Andhra Pradesh 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. Further, skilled labour is also easily available by virtue of it being situated in the marble & granite belt of India

Comfortable solvency position

The capital structure of the company remained comfortable with an overall gearing of 0.99 times as on March 31, 2018, deteriorated marginally from 0.77 times as on March 31, 2017 mainly on account of infusion of unsecured loans in the company by the directors and related concerns along with higher utilization of working capital bank borrowings.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE’s Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Udaipur (Rajasthan) based Pacific Industries Limited (PIL) was incorporated in 1989 as a 100% Export Oriented Unit (EOU) 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 & Flavour Spirit Manufacture Private Limited.

Standalone financials of PIL

Brief Financials (Rs. crore)	FY17 (A)	FY18(A)
Total operating income	66.79	68.89
PBILD	5.76	7.76
PAT	0.34	0.83
Overall gearing (times)	0.77	0.99
Interest coverage (times)	2.61	2.30

A: Audited

Status of non-cooperation with previous CRA: ICRA has conducted the review on the basis of the best available information and has classified PIL as "Non cooperating" vide its press release dated July, 2018

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	April, 2020	2.44	CARE BB-; Stable
Fund-based - LT/ ST-EPC/PSC	-	-	-	11.00	CARE BB-; Stable / CARE A4
Non-fund-based - ST-Letter of credit	-	-	-	5.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	2.44	CARE BB-; Stable	-	1)CARE BB-; Stable (21-Dec-17)	-	-
2.	Fund-based - LT/ ST-EPC/PSC	LT/ST	11.00	CARE BB-; Stable / CARE A4	-	1)CARE BB-; Stable / CARE A4 (21-Dec-17)	-	-
3.	Non-fund-based - ST-Letter of credit	ST	5.00	CARE A4	-	1)CARE A4 (21-Dec-17)	-	-

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