

Pacific Industries Limited

March 20, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	9.00	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	6.00	CARE A4 (A Four)	Reaffirmed
Long-term/Short-term Bank Facilities	13.00	CARE BB-; Stable/CARE A4 (Double B Minus; Outlook:Stable/A Four)	Reaffirmed
Total 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) continue to remain constrained on account of its moderate profitability margins, moderate debt coverage indicators and stretched liquidity position. The ratings, further, continue to remain constrained on account of the risk associated with availability of raw material, susceptibility of margins to foreign exchange rate, its presence in the highly competitive marble & granite industry and uncertain demand scenario prevailing for quartz surface products with prospects linked 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 increase in Total Operating Income in FY19 (FY refers to period from April 01 to March 31) and moderate capital structure.

Rating Sensitivities

Positive Factors

- Sustained increase in scale of operations of the company beyond Rs.120.00 crore
- Sustained improvement/maintaining of profitability margins over a period of time with registration of PBILDT margin beyond 13.00%
- Improvement in liquidity position with operating cycle upto 180 days

Negative factors

- Finalization of higher duties by United States International Trade Commission and the company's inability to find alternate markets for the sale of its products thus impacting its scale of operations and profitability adversely
- Any debt-funded project undertaken by the company which results in deterioration of capital structure beyond 1.50 times
- Sustained decline in profitability margins over a period of time with registration of PBILDT margin below 5.00%
- Deterioration in liquidity position with elongation in operating cycle beyond 300 days

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate profitability margins and moderate debt coverage indicators

The profitability margins of the company remained moderate with PBILDT and PAT margin of 9.56% and 1.26% respectively in FY19 as against 11.34% and 1.21% respectively in FY18. During FY19, PBILDT margin has dipped by 178 bps over FY18 owing to increase in cost of consumables which is offset to an extent by proportionate decline in employee cost. Despite decrease in PBILDT margin, PAT margin has increased by 5 bps over FY18 owing to proportionate decline in interest and finance expenses. Further, the GCA level also increased by 25.40% in FY19 over FY18 and stood modest at Rs.5.67 crore.

Further, the debt coverage indicators remained weak with total debt to GCA at 15.27 times as on March 31, 2019, deteriorated from 13.46 times as on March 31, 2018 mainly on account of higher proportionate increase in total debt than GCA level. Also, the interest coverage ratio remained modest at 2.48 times during FY19.

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

Uncertain demand scenario prevailing for quartz surface products with prospects linked to cyclical real estate sector

As the company is also involved in exports for quartz surface, it is exposed to the risk of slowdown in demand of its products in the target markets. Furthermore, the demand for company's products is linked to real estate sector which is cyclical in nature.

The company is also exposed to risk related to changes in duty structure in the countries where it exports its products. Recently, the US department of Commerce has preliminarily determined anti-dumping duty of 3.13% and preliminary countervailing duty (CVD) of 83.79% on quartz surface products imported from Indian producers, including PIL, based on its preliminary determination that producers of quartz surface products in India have received subsidies from their government and that the quartz slabs from India are being sold for below market value in the US market. However, the United States International Trade Administration is expected to make their final recommendations on Indian and Turkish quartz surface tariffs in early 2020 following which the United States International Trade Commission (USITC), an independent federal agency with which the unfair trade petition against import of quartz surface products has been filed, will then rule on finalizing the tariffs. Though, the final determination of anti-dumping duty and CVD is yet to be made, imposition of higher preliminary duties (CVD/anti-dumping) may adversely impact the credit profile of Cuarzo on account of its high dependence on the US market for sale of its quartz products. Further, the same has given rise to uncertain scenario with respect to competitiveness of quartz products supplied by Indian producers as higher duties might make these products expensive compared to locally supplied quartz products.

However, the full effect of the same would be visible once greater clarity emerges on such trade duties. As articulated by the management, a limited time (120 days) window will be opened wherein the Indian producers including Curazo will be allowed to make duty free exports. However, CVD once finalized by US on quartz surface slab at such higher rate would impact exports of the firm going forward. Hence, reducing dependence on the US market and finding alternate markets through geographical diversification will be crucial from 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 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.

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 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 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 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. Further the top 5 customers includes Jindal Saw Limited, Jayaswal Neco Industries Limited, Arizona Tile LLC (USA) , Shri Bajrang Power & Ispat Limited, Sarda Energy & Minerals Limited which constitute 31.10% of Total Operating Income in FY19.

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 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

Increase in Total Operating Income (TOI) in FY19

During FY19, the scale of operations of the company as indicated by TOI has increased significantly by 49.88% over FY18 and remained modest at Rs.103.26 crore. This increase relates to sale of iron ore in FY19 which was one time in nature. The company generated 50.27% (against 69.57% in FY18) of TOI from export of granite slabs in FY19, 12.77% (against 16.81% in FY18) from sale of granite slabs in domestic market and 33.87% (against 2.22% in FY18) from sale of iron ore in domestic market. Further, in 9MFY20, the company has registered TOI of Rs.79.80 crore against Rs.70.08 crore in 9MFY19.

Moderate capital structure

The capital structure of the company remained moderate with an overall gearing of 1.38 times as on March 31, 2019, deteriorated from 0.99 times as on March 31, 2018 owing to infusion of unsecured loans in the company by the directors and related concerns for debt funded project undertaken by the company for setting up a unit for processing of quartz.

Successful completion of project undertaken

During FY19, the company undertook a project for setting up processing of quartz with an installed capacity of 4,50,000 square metre per annum. It incurred total cost of Rs.58.33 crore which was funded through term loan of Rs.25.00 crore and infused capital by way of right issue amounting to Rs.24.93 crore. It commenced commercial operation from June, 2019. Currently, it is catering its exiting export customer for sale of quartz slabs in USA. Further, with relaxation received with regard to export of Quartz till June, 2020. PIL has order of 75 containers in hand amounting to Rs.15.00 crore. More over around 25% of TOI in FY20 is from quartz segment and has 3 quartz mines.

Liquidity: Stretched

Liquidity is marked by tightly matched accruals to repayment obligations and utilizes upto 85% of its working capital bank borrowings during the last twelve months ended on February 29, 2020 along with thin cash balance of Rs.0.88 crore as on March 31, 2019. Further, the business of PIL is stretched marked by elongated operating cycle at 264 days in FY19, improved from 431 days in FY18 owing to decrease in inventory 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 stood moderate at 1.62 times, however quick ratio stood below unity at 0.92 times as on March 31, 2019

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](#)

About the Company

Udaipur (Rajasthan) based Pacific Industries Limited (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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	68.89	103.26
PBILDT	7.81	9.87
PAT	0.83	1.30
Overall gearing (times)	0.99	1.38
Interest coverage (times)	2.21	2.48

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: None

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
Fund-based - LT-Term Loan	-	-	October, 2024	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 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.	Fund-based - LT-Term Loan	LT	9.00	CARE BB-; Stable	-	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 (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 (19-Feb-19)	1)CARE A4 (21-Dec-17)	-

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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