January 31, 2022

Tulip Granites Pvt. Ltd.: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Fund-based Limits	4.50	0.00	-
Short Term: Fund-based Limits	18.00	0.00	-
Short Term: Non-fund Based Limits	3.00	0.00	-
Long Term: Unallocated Limits	0.50	0.00	-
Long Term/Short Term: Unallocated Limits	0.00	26.00	[ICRA]BB / [ICRA]A4 reaffirmed; Outlook revised to 'Stable' from 'Negative'
Total	**26.00**	**26.00**	

**Instrument details are provided in Annexure-1*

Rationale

The outlook revision to Stable on the long-term rating factors in Tulip Granites Pvt. Ltd.'s (TGPL) reduced debt levels and improved liquidity position. The total external debt declined to Rs. 15.0 crore as on March 31, 2021 from Rs. 33.2 crore as on March 31, 2020 with the closure of its entire working capital facilities (fund-based limits of Rs. 22.5 crore and non-fund based limits of Rs. 3.0 crore) with the lenders in FY2021 through advances received against the sale of processing unit and unsecured loans of Rs. 10.7 crore infused by the promoters. The company sold its processing unit for a consideration of Rs. 21.5 crore and transferred the operations and assets on July 30, 2021. Further, its liquidity position has improved with infusion of unsecured loans from promoters and moderate working capital requirements for quarry operations. The ratings factor in the comfortable capital structure with gearing of 0.3 times and healthy interest coverage of 2.7 times in FY2021. ICRA also notes TGPL's established track record in granite quarrying industry.

The ratings are, however, constrained by TGPL's modest scale of operations with revenues decreasing to Rs. 55.7 crore in FY2021 from Rs. 101.3 crore in FY2018 and expected to remain at similar levels for FY2022. The revenues from granite sales dipped from FY2019 onwards with a shift in demand to engineered stone (quartz) in global markets, more particularly in the U.S. market. Further, the revenues are likely to reduce significantly from FY2023 onwards as the processing unit has been sold and TGPL's entire revenues would be derived only from quarrying operations. Notwithstanding the decline in scale, TGPL's accruals are expected to be adequate in relation to the term loan repayments due in the near to medium term. The ratings are constrained by the vulnerability of its revenues to macro-economic factors such as the performance of the housing sector in export markets and exposure of profitability to fluctuations in export costs such as increase in ocean freight. ICRA also notes the highly fragmented nature of the granite processing industry characterised by intense competition among the players.

The Stable outlook on [ICRA]BB reflects ICRA'S belief that the company will continue to benefit from its extensive track record in granite quarrying industry as well as its improved capital structure.

Key rating drivers and their description

Credit strengths

Established track record in granite quarrying: Incorporated in 2002, the company is into granite quarrying for more than a decade. TGPL has mining rights for two quarries one in Karimnagar, Telangana and other in Srikakulam, Andhra Pradesh, producing tan brown and flash blue coloured granite rough blocks respectively. The quarrying operations have high margins and accounted for 68% of its revenues in 9M FY2022. The rough blocks mined from Karimnagar are primarily exported and that from Srikakulam are sold in the domestic market.

Comfortable capital structure and healthy coverage metrics: TGPL 's capital structure remained comfortable with a gearing of 0.34 times and TOL/TNW of 0.89 times as on March 31, 2021. The total debt of Rs. 25.7 crore as on March 31, 2021 comprised Rs. 15.0 crore of term loans taken against equipment and property, along with Rs. 10.7 crore of unsecured loans from the promoters. The total external debt declined to Rs. 15.0 crore as on March 31, 2021 from Rs. 33.2 crore as on March 31, 2020 with the closure of its entire working capital facilities (fund-based limits of Rs. 22.5 crore and non-fund based limits of Rs. 3.0 crore) with the lenders in FY2021 through advances received against the sale of the processing unit and unsecured loans of Rs. 10.7 crore infused by promoters. The company sold its processing unit for a consideration of Rs. 21.5 crore and transferred the operations and assets on July 30, 2021. The interest coverage remained comfortable at 2.70 times in FY2021 owing to reduced debt levels.

Credit challenges

Modest scale of operations: The company's revenues remained modest at Rs. 55.7 crore in FY2021 declining from Rs. 101.3 in FY2018 and is expected to remain at similar levels for FY2022. The revenues from granite sales dipped from FY2019 onwards with a shift in demand to engineered stone (quartz) in global markets, more particularly in the U.S. market. Further, TGPL's revenues are likely to reduce significantly from FY2023 onwards as the processing unit is sold and the entire revenues would be derived only from quarrying operations.

Stiff competition in granite industry and revenues vulnerable to macro-economic factors: The granite industry faces intense competition from other players in the domestic as well as competing countries. Further, the revenues are vulnerable to macro-economic factors such as the performance of the housing sector in the export markets. Moreover, as majority of quarried rough blocks are exported, the margins remain vulnerable to increase in ocean freight costs. The increase in ocean freight costs impacted TGPL's margins in FY2021 and 9M FY2022.

Liquidity position: Adequate

The company's liquidity is adequate with repayment obligations of Rs. 4.7 crore for FY2022 to be comfortably met from its cash flows from operations. Further, the liquidity position has improved with infusion of unsecured loans from promoters and moderate working capital requirements for quarry operations.

Rating sensitivities

Positive factors: ICRA may upgrade TGPL's ratings if the company demonstrates a significant increase in revenues and earnings, along with an improvement in its liquidity position.

Negative factors: The ratings may witness downward pressure if there is a decline in the company's revenues and earnings impacting the leverage and coverage metrics or stretch in the working capital cycle affecting the overall the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial statements

About the company

TGPL was incorporated in 2002 and is involved in granite quarrying of granite rough blocks. The company owns two quarries, located in Karimnagar, Telangana and Srikakulam, Andhra Pradesh. The Karimnagar quarry has tan brown colour granite and Srikakulam quarry has flash blue/platinum pearl colour granite. The company had one processing unit in the Special Economic Zone (SEZ) at Ongole, Andhra Pradesh with an installed capacity of 30 lakh square feet (sq. ft.) per annum, which was sold in July 30, 2021.

Key financial indicators

	FY2020	FY2021*
Operating Income (Rs. crore)	39.8	55.6
PAT (Rs. crore)	1.1	0.3
OPBDIT/OI (%)	30.0%	13.6%
PAT/OI (%)	2.9%	0.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.9
Total Debt/OPBDIT (times)	2.8	3.4
Interest Coverage (times)	3.7	2.7

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;*Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Jan 31,2022	Date & Rating in FY2021 Oct 05,2020	Date & Rating in FY2020 Oct 11,2019	Date & Rating in FY2019 Aug 16,2018
1	Cash Credit	Long-term	0.00		-	[ICRA]BB (Negative)	[ICRA]BB (Negative)	[ICRA]BB+ (Stable)
2	Packing Credit in Foreign Currency (PCFC)	Short-term	0.00		-	[ICRA]A4	[ICRA]A4	[ICRA]A4+
3	Letter of Credit	Short-term	0.00		-	[ICRA]A4	[ICRA]A4	[ICRA]A4+
4	Unallocated Limits	Long-term	0.00		-	[ICRA]BB (Negative)	[ICRA]BB (Negative)	
5	Unallocated Limits	Long-term/Short-term	26.00		[ICRA]BB (Stable) [ICRA]A4	-	-	-

Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Unallocated Limits		-		26.00	[ICRA]BB(Stable)/[ICRA]A4

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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