

March 31, 2022

## P.S.R. Granites: Long-term rating downgraded to [ICRA]B+ (Stable) and short-term rating reaffirmed at [ICRA]A4

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	0.50	0.50	[ICRA]B+ (Stable); downgraded from [ICRA]BB- (Stable)
Short Term - Fund Based	10.00	10.00	[ICRA]A4; reaffirmed
Long Term/ Short Term – Unallocated	4.50	4.50	[ICRA]B+ (Stable), downgraded from [ICRA]BB- (Stable); [ICRA]A4, reaffirmed
<b>Total</b>	<b>15.00</b>	<b>15.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating action factors in the sustained pressure on the liquidity position of the P.S.R. Group (P.S.R. Granites Pvt. Ltd. and P.S.R. Granites) due to the significant increase in the inventory levels to Rs. 27-28 crore as on February 28, 2022, from Rs. 1.36 crore as on March 31, 2021, on account of shortage of containers to export the granites slabs. The stretched liquidity position is reflected in the fully utilised fund-based working capital limits during the last 12 months ended January 31, 2022. The Group has proposed a capex plan of Rs. 20-22 crore in FY2023, to be funded in a debt:equity ratio of 3:1, which further constrains the liquidity and the proposed promoter funds infusion towards the same remains critical. The logistic issues adversely impacted the sales in 11M FY2022 and the Group is expected to report a decline in revenues by around 25-26% to Rs. 91-93 crore in FY2022.

The operations also remain exposed to high geographical concentration risk as ~82-90% of the exports have been to China in the last four years. ICRA also notes the vulnerability of the revenues to macroeconomic factors such as the performance of the housing real estate sector in the export markets and the highly fragmented nature of the granite processing industry with intense competition, leading to moderate profitability.

The ratings, however, favourably factor in the extensive experience of the promoter in the granite quarrying and export business for more than two decades and the established relationship with customers which has ensured repeat business.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that the Group will continue to benefit from the extensive experience of its promoter in the granite quarrying and export business industry.

### Key rating drivers and their description

#### Credit strengths

**Experience of promoter in granite quarrying industry** – The promoter of the Group, Mr. Palakurthi Sridhar, has more than two decades of experience in the granite quarrying and export business, which has helped the Group establish its business in the domestic and export markets. The Group has three quarries in operation and two granite processing units in Telangana with a total processing capacity of 3,50,000 MT per annum where the granite is processed into rough blocks before being exported.

**Established relationships with customers** – The Group’s customer profile comprises manufactures of granites products. Although the customer concentration has remained high (around 78% of the total sales comes from the top 5 customers in FY2021), the established relationship with the customers has ensured repeat business.

### Credit challenges

**Stretched liquidity position due to elevated inventory levels** – The liquidity position of the Group has weakened in FY2022 due to the significant increase in inventory levels to Rs. 27-28 crore as on February 28, 2022, from Rs. 1.36 crore as on March 31, 2021 on account of shortage of containers to export the granites slabs. The high working capital requirements are funded by stretching the creditors and advances from customers. Further, given the sizeable repayment obligations, the DSCR is estimated at around 1x in FY2022. The Group also has a capex plan of around Rs. 20-22 crore in FY2023 to be funded through a mix of debt to equity of 3:1, which is likely to further put pressure on the liquidity.

**Small scale of operations, revenues likely to decline in FY2022** – Revenues in 11M FY2022 has been adversely impacted due to the logistics issues faced for exporting the granites slabs. In FY2022, ICRA expects the Group to report a revenue decline of around 25-26% to ~Rs. 91-93 crore. The revenues are expected to improve to ~Rs. 115-118 crore in FY2023 (lower than FY2021 levels of Rs. 123.5 crore), supported by the expected easing of the current logistics issues.

**High geographical concentration** – The geographical concentration risk is high as the Group mainly exports granite blocks to China. Around ~82-90% of the revenues have been from China over the last four years. Nonetheless, the Group has established relationships with customers in the export market which has led to repeat orders over the years.

**Intense competition in granite industry** – The granite industry faces intense competition from other players in the domestic and competing countries as well as to other substitute products. Further, the revenues are vulnerable to macroeconomic factors such as the performance of the housing sector in the export market.

### Liquidity position: Stretched

The liquidity position of the entity remains stretched as reflected in the fully utilised working capital limits in the last 12 months ended January 2022. Further, the Group has sizeable repayment obligations in FY2022 and FY2023 for the equipment loans availed. Thus, timely liquidation of the existing inventory or infusion of funds by the promoter will remain critical in timely servicing of the debt obligations going forward. Besides, the Group also has a capex plan of around Rs. 20-22 crore in FY2023 to be funded through a mix of debt to equity of 3:1. However, the debt is yet to be sanctioned and the promoter equity, too, is yet to be infused.

### Rating sensitivities

**Positive factors** – The ratings can be upgraded if there is an improvement in the Group’s scale of operations, leading to healthy cash accruals and an improvement in its overall liquidity profile.

**Negative factors** – The rating can be downgraded in case of a sharp decline in revenues and operating margins and deterioration in the working capital position, which will worsen the liquidity position.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable

**Consolidation/Standalone**

For arriving at the rating, ICRA has taken a consolidated view of PSGRPL, along with its Group company, PSRG, given the close business, financial and managerial linkages among them.

## About the company

P.S.R. Granites Pvt. Ltd. and P.S.R. Granites, incorporated in 2004, are involved in the mining and export of rough blocks of granites. The PSR Group operates three quarries in Telangana at present. The Group also owns two processing facilities with a total capacity of 3,50,000 MT per annum where the granite is processed into rough blocks and majorly exported (80-90% of total revenues) to China. The operations are managed by Mr. Palakurthi Sridhar.

## Key financial indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	99.26	123.51
PAT (Rs. crore)	4.37	4.71
OPBDIT/OI (%)	14.6%	15.2%
PAT/OI (%)	4.4%	3.8%
Total Outside Liabilities/Tangible Net Worth (times)	3.79	3.66
Total Debt/OPBDIT (times)	2.32	1.89
Interest Coverage (times)	4.65	4.72

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

**Status of non-cooperation with previous CRA:** CRISIL, in its rationale published on P.S.R. Granites, dated January 24, 2022, continued the ratings at '[CRISIL]B+ (Stable)/A4 ISSUER NOT COOPERATING' based on best-available information.

**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 as on Feb 28, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Mar 31, 2022	Dec 01, 2020	-	-
1	Cash Credit	Long Term	0.50	-	[ICRA]B+ (Stable)	[ICRA]BB-(Stable)		
2	Fund Based	Short Term	10.00	-	[ICRA]A4	[ICRA]A4		
3	Unallocated	Long-term and short term	4.50	-	[ICRA]B+ (Stable) / [ICRA]A4	[ICRA]BB-(Stable) / [ICRA]A4		

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based/ CC	Simple

Short Term - Fund Based	Simple
Long Term/ Short Term – Unallocated	NA

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 analyzing 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](http://www.icra.in)

**Annexure-1: Instrument details**

ISIN No./Banker name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	0.50	[ICRA]B+ (Stable)
NA	Packaging Credit Limit	NA	NA	NA	5.50	[ICRA]A4
NA	Foreign Bill discounting	NA	NA	NA	4.50	[ICRA]A4
NA	Unallocated	NA	NA	NA	4.50	[ICRA]B+(Stable) /[ICRA]A4

Source: Company

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
P.S.R. Granites Pvt. Ltd.	Common promoters	Full Consolidation

Source: Company

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