January 12, 2024

Amman Granites: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Export packing credit (EPC)	12.00	12.00	[ICRA]BBB- (Stable); Reaffirmed
Long-term – Fund-based – Cash credit (CC)^	(0.20)	(0.20)	[ICRA]BBB- (Stable); Reaffirmed
Short-term – Fund-based – Foreign bills discounting (FBD)	15.00	15.00	[ICRA]A3; Reaffirmed
Short-term – Non-fund based	3.00	3.00	[ICRA]A3; Reaffirmed
Long-term/Short-term – Unallocated	11.00	0.00	-
Total	**41.00**	**30.00**	

**Instrument details are provided in Annexure-I; ^ Sub limit of EPC limits*

Rationale

For arriving at the ratings, ICRA has consolidated the operational and financial profile of Amman Granites (AG) and AG Granites Private Limited (AGGPL) (together referred as the Group), based on the common shareholders, management, the presence of cross default clauses and the entities being operated as extended arms of each other.

The reaffirmation of the ratings factor in the Group's comfortable financial risk profile and established operational track record in the granite industry. The Group's leverage and debt coverage indicators are likely to be comfortable in the medium term, supported by healthy cash accruals and absence of debt-funded capex plans. The Group has availed additional long-term debt of ~Rs. 9.0 crore in FY2023 for expanding the capacities. Nevertheless, the leverage with total outside liabilities/tangible net worth of 1.2 times and debt coverage metric with interest coverage of 4.8 times and Debt Service Coverage Ratio (DSCR) of 4.9 times in FY2023 remained comfortable. The ratings derive comfort from the Group's established relationship with key customers, which has resulted in repeat orders and lend stability to its revenue. It has a strong supplier network, along with own quarries, which ensures timely availability of raw materials of desired quality.

The ratings, however, remain constrained by the Group's working capital-intensive nature of operations, characterised by net working capital/operating income (NWC/OI) of 32-25% during the past four years. The same is expected to continue, owing to high inventory levels due to large number of Stock Keeping Units (SKUs), own quarrying and elongated debtors' position. The Group's operating profitability remains susceptible to fluctuations in input prices. The operating profit margins improved to 10% in FY2023 from 9.1% in FY2022 due to better realisations and stabilisation in input costs. It is likely to sustain at similar levels in the medium term. The ratings are constrained by the high geographical concentration of the Group's revenues in the European region, which exposes it to the risk of adverse macro-economic developments in those markets. Further, the ratings consider the susceptibility of the Group's margins to foreign exchange fluctuations.

The Stable outlook on the long-term rating reflects ICRA's expectation that the Group will continue to benefit from the promoters' extensive experience in the granite industry and its long-term association with its key customers and suppliers.

Key rating drivers and their description

Credit strengths

Comfortable leverage and coverage indicators – The Group's leverage and debt coverage indicators are likely to be comfortable in the medium term, supported by healthy cash accruals and absence of debt-funded capex plans. The Group has availed additional long-term debt of ~Rs. 9.0 crore in FY2023 for expanding the capacities. However, the leverage as reflected by total outside liabilities/tangible net worth of 1.2 times (PY: 1.5 times) and debt coverage metric with interest coverage of 4.8 times (PY: 4.9 times) and DSCR of 4.9 times in FY2023 (PY: 4.8 times) remained comfortable.

Established relationship with key customers, strong supplier network – The Group's established operational track record in the granite industry has facilitated it to establish a strong relationship with its customers. The same ensures repeat orders and aids revenue stability as witnessed in the past. It has a strong supplier network along with own quarries, which ensures timely availability of raw materials of desired quality. The Group's operating income (OI) is expected to be in the range of Rs. 190 crore - Rs. 220 crore during FY2024-FY2025 (PY: Rs. 225 crore).

Extensive experience of promoter – The Group's promoter, Mr. Ramaswamy, has extensive experience of nearly three decades in the granite industry. He is involved in managing the Group's day-to-day operations. His long presence in the industry supports the Group's growth prospects by facilitating customer acquisition.

Credit challenges

Working capital-intensive operations – The business has high working capital requirements as reflected by NWC/OI of 32-25% during the past four years. The same is expected to continue, owing to high inventory levels due to a large number of SKUs, own quarrying and elongated debtors' position. With higher proportion of raw material procurement through own quarrying, the working capital intensity would remain high.

Vulnerability of margins to raw material and foreign exchange fluctuations – The operating profit margins in FY2023 improved to 10% from 9.1% in FY2022, due to better realisations and stabilisation in input costs. However, it remains susceptible to fluctuations in input prices. Further, the ratings consider the susceptibility of the Group's margins to foreign exchange fluctuations.

High geographical concentration – The ratings are constrained by the high geographical concentration of the Group's revenues in the European region, which exposes it to the risk of adverse macro-economic developments in those markets. The Group derives more than 90% of its revenues from the European countries such as Germany, France, Poland, Hungary and Netherland.

Liquidity position: Adequate

The Group's liquidity position remains adequately supported by a free cash balance of Rs. 11.7 crore as on September 30, 2023. The average utilisation of AGGPL's and AG's fund-based working capital limits during the 12-month period ending in November 2023 stood at 68% and 72%, respectively. AGGPL's fund-based limits increased by Rs. 14 crore in February 2023 to Rs. 60 crore. There has been no substantial increase in its utilisation levels, which aids its liquidity. The Group has repayment of ~Rs. 3.4 crore in FY2024 and Rs. 2.6 crore in FY2025, which is likely to be comfortably met through the estimated cash flow from operations.

Rating sensitivities

Positive factors – ICRA may upgrade the Group's ratings if it witnesses a sustained increase in its scale of operations, coupled with an improvement in its profitability and working capital intensity.

Negative factors – Negative pressure on the Group's ratings could arise if its scale of operations, profitability and coverage metrics deteriorate or if its working capital intensity increases thereby weakening its liquidity position. Specific credit metrics that may trigger a negative rating action includes interest coverage of less than 3.0 times.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Amman Granites and AG Granites Private Limited.

About the company - AG

Amman Granites was established as a partnership firm by Mr. Muthu Gounder in 1986. Mr. Gounder's son, Mr. M. Ramasamy is the current managing partner of the firm. In the initial years, it was involved in quarrying as well as trading of rough blocks. Subsequently, it commenced exports of granite monuments including tombs, tombstones and other granite artefacts to European countries. The firm's manufacturing facility is situated in Harur Taluk, Dharmapuri district in Tamil Nadu.

About the company - AGGPL

AG Granites Private Limited (AGGPL) was incorporated in 2000 by Mr. M. Ramasamy. The company was started as an export-oriented unit (EOU) to manufacture granite monuments. While most of the monuments are manufactured as tombs and tombstones, it produces societal monuments such as monolithic sofa, garden benches, and specially crafted artefacts. Its manufacturing facility is in Harur Taluk, Dharmapuri district in Tamil Nadu.

Key financial indicators (audited)

Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	250.7	225.2	88.9
PAT	11.8	10.3	5.5
OPBDIT/OI	9.1%	10.0%	13.6%
PAT/OI	4.7%	4.6%	6.2%
Total outside liabilities/Tangible net worth (times)	1.5	1.2	1.1
Total debt/OPBDIT (times)	2.8	2.5	2.2
Interest coverage (times)	4.9	4.8	6.7

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; 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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 12, 2024	Dec 30, 2022	Sept 27, 2021	Jun 30, 2020
1	Fund-based - EPC	Long term	12.00	--	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Fund-based - CC*	Long term	(0.20)	--	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-
3	Fund-based	short term	15.00	--	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
5	Non-fund based facilities	short term	3.00	--	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
5	Unallocated	Long term/ short term	0.00	--	-	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3

**Sub limit of EPC limits*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – EPC	Simple
Long-term – Fund-based – CC	Simple
Short-term – Fund-based	Simple
Non-fund based facilities	Very Simple

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 are available on ICRA's website: Click Here.

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term Fund-based -EPC**	NA	NA	NA	12.00	[ICRA]BBB- (Stable)
NA	**Long-term – Fund-based / CC***	NA	NA	NA	(0.20)	[ICRA]BBB- (Stable)
NA	**Short-term Fund-based – FBD**	NA	NA	NA	15.00	[ICRA]A3
NA	**Non-fund based facilities**	NA	NA	NA	3.00	[ICRA]A3

*Source: Company; *Sub limit of EPC limits*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	AGGPL's Ownership	Consolidation Approach
Amman Granites	*	Full Consolidation
AG Granites Private Limited	rated entity	Full Consolidation

*Source: Group, ICRA Research; *both the companies are owned by common promoters*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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