November 25, 2022

Asian Granito India Limited: Ratings downgraded to [ICRA]A (Negative)/[ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term loan	31.27	-	-
Fund-based - Working capital facilities	167.00	100.00	[ICRA]A (Negative); downgraded from [ICRA]A+ (Negative)
Non-fund based - Bank guarantee & Letter of credit	55.84	56.00	[ICRA]A2+; downgraded from [ICRA]A1
Total	**254.11**	**156.00**	

**Instrument details are provided in Annexure I*

Rationale

The downgrade in the ratings of Asian Granito India Limited (AGL) factors in the significant moderation in its profitability over the past several quarters (ending September 30, 2022) because of a sharp increase in input gas prices, which has weakened its debt coverage metrics. The Negative outlook reflects ICRA's expectation that the company's credit profile is likely to remain under pressure in the medium term, in the backdrop of elevated input cost pressure. While the profitability in the ceramic tiles industry has been under pressure in the recent quarters due to sharp increase in input prices, AGL has underperformed compared to other larger peers because of non-availability of APM gas (resulting into spot purchase from Sabarmati Gas) in its subsidiary Crystal Ceramic Industries Pvt Ltd (CCIPL) and change in product profile (in subsidiaries – Amazoone Ceramics Ltd and CCIPL), which resulted in lower capacity utilisation. In the backdrop of recent price hikes implemented by the company, AGL's management is expecting normalisation in operating performance from Q3 FY2023e onwards. Going forward, the company's ability to ramp-up operations of its subsidiary and improve the overall profitability levels remains a key rating monitorable.

Apart from the susceptibility of its profitability to adverse fluctuations in raw material and fuel prices, the ratings remain constrained by the working capital-intensive nature of the company's operations. AGL derives a sizeable share of its revenues from the project business, which results in an elongated receivable cycle and higher working capital intensity than other similar-sized peers in the industry. The ratings factor in the intense industry competition from large as well as mid-sized players in the organised market, and the cyclicality associated with the real estate sector, which remains the key end-user of tiles.

The ratings, however, continue to factor in AGL's healthy capital structure, following the fund raising of ~Rs. 665 crore over the past year, resulting in a reduction in the overall debt levels. Of the total proceeds from the right issue, around Rs. 280 crore is currently parked in fixed deposits with the banks/financial institutions, which have been earmarked towards the ongoing capacity expansion plans and working capital requirements, limiting the company's dependence on external debt. Nonetheless, given the expectation of subdued profitability, the return metrics are likely to remain constrained until commensurate returns from the capex starts flowing in. The ratings continue to favourably consider the extensive experience of AGL's promoters in the tiles industry and its established brand positioning in the domestic market, which, along with its diversified product range and wide distribution network resulted in steady sales growth.

ICRA has previously taken note that a search and seizure operation was carried out by the Income Tax (I-T) Department at various locations of the AGL Group in May 2022. ICRA would continue to closely monitor any further developments in this regard and take appropriate rating action, if necessary.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters; established presence in Indian ceramic industry - AGL's promoters have over two decades of experience in the ceramic industry, which has helped the company forge a strong relationship with its suppliers and customers. At present, it is the fourth largest player in the domestic ceramic tiles industry and accounts for approximately ~3-4% of the domestic market share.

Diversified product profile and wide distribution network - The Group has a well-diversified product portfolio comprising ceramic wall and floor tiles, vitrified tiles, quartz, marble and sanitaryware. At present, the Group has an established presence in the domestic market with a wide distribution network comprising over 6,500 dealers/sub-dealers and 311 exclusive showrooms pan-India. Moreover, the Group exports to the Middle East, the US, the UK, Europe, Africa, and Indonesia (around 13% of the Group's revenues were derived from exports in H1 FY2023).

Fund raising and deleveraging support capital structure - The company has raised equity through rights issues of ~Rs. 225 crore in October 2021 and ~Rs. 440 crore in May 2022, which has resulted in a significant improvement in the net worth levels to Rs. 1,324 crore in September 2022 (from Rs. 918 crore as on March 31, 2022 and Rs. 626 crore as on March 31, 2021). With proceeds from the rights issue, AGL's debt levels reduced to Rs. 210.5 crore as on September 30, 2022 (from Rs. 287.5 crore as on September 30, 2021), resulting in an improvement in the capital structure (Total Debt/TNW was 0.2 times as on September 30, 2022 on a consolidated level). Further, around Rs. 280 crore is currently parked in fixed deposits with the banks/financial institutions, which will be utilised towards the ongoing capacity expansion plans and working capital requirements.

Credit challenges

Significant moderation in profitability levels; vulnerability to adverse fluctuations in raw material and fuel prices - Raw material and fuel account for ~70%-75% of AGL's operating cost and thus, its profitability remains susceptible to fluctuations in their prices, given its limited ability to pass on the rise to customers due to intense competition in the industry. ICRA notes that gas prices witnessed a significant upsurge in the recent past, especially for AGL's subsidiary, CCIPL, which earlier enjoyed access to cheaper gas from ONGC. Notwithstanding the periodic price revisions undertaken by the company, its inability to pass on the same in a timely manner sharply moderated its operating profitability margin to 0.6% in H1 FY2023 (from 8% in FY2022 and 10.5% in FY2021). While the recent softening in fuel prices is expected to provide some relief in H2 FY2023, full year margins are likely to be significantly lower on a YoY basis and are unlikely to touch the pre-pandemic levels over the medium term. This, along with sizeable capital expansion is anticipated to result in a significant moderation in the return indicators until commensurate returns from the capex starts flowing in.

Working capital-intensive operations - The company's working capital intensity has remained high, as reflected by NWC/OI of around 30-40% in the past, because of high receivables and inventory levels. AGL normally provides a credit period of up to 90 days to its customers and receives a credit period of up to 120 days from its suppliers. Besides, it maintains around 45-60 days of its raw material requirement and finished goods inventory to service any immediate requirements, resulting in high overall inventory days.

Intense competition and cyclicality in real estate industry - The ceramic tile industry is intensely competitive, with the presence of large players such as Kajaria Ceramics, H&R Johnson (India) (a division of Prism Johnson) and Somany Ceramics as well as other mid-sized players in the organised market. Moreover, the real estate industry remains the major end-user of the ceramic tiles. Hence, the Group's revenues and cash flows are vulnerable to the cyclicality in the end-user industry.

Environmental and social risks

Environmental considerations - Tiles manufacturing is an energy-intensive process requiring substantial quantities of fuel and thus, resulting in greenhouse gas emissions, waste generation and pollution. As such, the industry's (and AGL's) exposure to litigation/penalties arising from issues related to waste and pollution management remains relatively high. However, as per the company's annual report of FY2022, AGL has taken initiatives towards the use of clean technology and energy efficiency. Its plants run on natural gas, instead of coal, to combat the rising pollution. Its hazardous waste and emissions have remained within the permissible limits of CPCB/SPCB in FY2022. Nonetheless, AGL's cash flows remain exposed to the increasing investment requirements to comply with stringent pollution norms.

Social considerations - Social risk in the industry is modest and stems from the health and safety concerns of employees involved in the mining of clay, among other things. Further, given the dependence on human capital, entities in the tiles industry are exposed to labour-related risks and risks of protests/social issues with local communities, which could impact expansion/modernisation plans or disrupt regular operations. While these issues have not hindered AGL's expansion plans in the past, a lack of sensitivity in managing these risks could result in cost overruns in the context of its large medium-term capacity expansion plans. AGL remains exposed to any major shift in consumer preferences, which are a key driver for demand, and accordingly may need to make material investments to realign its product portfolio.

Liquidity position: Adequate

AGL's liquidity position is expected to remain adequate, with an improvement in cash flows from operations, supported by free cash and liquid investments of ~Rs. 18 crore (as on September 30, 2022) and undrawn working capital lines of ~Rs. 85 crore (in October 2022 end). The company had undertaken a fund raising exercise in Q1 FY2023, proceeds from which were partly utilised towards debt repayment. This has resulted in minimal debt repayment obligations in the medium term. Further, while the company has significant capex planned during FY2023 and FY2024, for which it has earmarked around Rs. 280 crore from the proceeds of right issue to fund the same. However, any significant demand from the I-T Department, on account of the recent search and seizure operation, which impacts the liquidity position remains a key monitorable.

Rating sensitivities

Positive factors - The outlook can be revised to Stable with improvement in the profit margins and the overall liquidity position, on a sustained basis, at a consolidated level.

Negative factors - Downward pressure on the ratings could arise in case of a significant decline in scale or inability to improve profitability. Further, any large debt-funded capex or a significant stretch in the working capital cycle or any significant demand from the I-T Department (on account of the recent search and seizure operation), which weakens the consolidated liquidity profile, may lead to a downward revision in the ratings. Specific credit metrics include interest cover below 5.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of AGL. As on March 31, 2022, AGL had four subsidiaries and one step-down subsidiary (as per Annexure – II)

About the company

Incorporated in 2002 by Mr. Kamlesh Patel and Mr. Mukesh Patel, Asian Granito India Limited (AGL) is a leading manufacturer of ceramic tiles with a product range including wall tiles, floor tiles, vitrified tiles, marble, quartz and sanitaryware. Over the years, the company has expanded its production capacities as well as product range, providing the manufacturing and marketing of flooring solutions under the brand name of AGL. AGL has ten manufacturing facilities (including three facilities of subsidiaries) in Morbi and Himmatnagar region of Gujarat, with an overall installed capacity of ~26.4 million sq. mt. at present. The company is listed on the Bombay Stock Exchange and the National Stock Exchange.

Key financial indicators (audited)

	Standalone			Consolidated		
	FY2021	FY2022	H1 FY2023*	FY2021	FY2022	H1 FY2023*
Operating income (Rs. crore)	1,036.2	1,349.1	615.3	1,292.3	1,563.8	707.8
PAT (Rs. crore)	49.2	87.9	16.0	55.7	91.6	(11.8)
OPBDIT/OI (%)	9.4%	6.5%	3.7%	10.5%	8.0%	0.6%
PAT/OI (%)	4.8%	6.5%	2.6%	4.3%	5.9%	-1.7%
Total outside liabilities/Tangible net worth (times)	0.8	0.3	0.3	1.1	0.6	0.4
Total debt/OPBDIT (times)	1.2	0.2	3.3	2.2	1.6	23.3
Interest coverage (times)	5.7	12.6	7.0	3.9	5.3	0.4

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; * Based on limited review financials*
Source: Company reported financials; ICRA Research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)						Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2022 (Rs. crore)	Date & Rating on			Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Nov 25, 2022	Sep 13, 2022	Jun 3, 2022	Oct 27, 2021	Mar 23, 2021	Jul 27, 2020 Jun 8, 2020	Jan 6, 2020
1	**Term loan**	Long-term	-	Nil	-	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)
2	**Working capital facilities**	Long-term	100.00	NA	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)
3	**Bank guarantee & Letter of credit**	Short-term	56.00	NA	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Working capital facilities	Simple
Short-term - Bank guarantee & Letter of credit	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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Working capital facilities**	NA	NA	NA	100.00	[ICRA]A (Negative)
NA	**Bank guarantee & Letter of credit**	NA	NA	NA	56.00	[ICRA]A2+

Source: Asian Granito India Limited

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

Annexure II: List of entities considered for consolidated analysis

Company	AGL Ownership	Consolidation Approach
Amazoone Ceramics Ltd.	97.77%	Full Consolidation
Crystal Ceramic Industries Pvt. Ltd.	70%	Full Consolidation
AGL Global Trade Pvt. Ltd.	100%	Full Consolidation
Future Ceramics Pvt. Ltd.	100%	Full Consolidation
AGL Sanitaryware Pvt. Ltd	100%	Full Consolidation
AGL Surfaces Pvt. Ltd.	100%	Full Consolidation
Powergrace Industries Ltd.	100% (step-down subsidiary)	Full Consolidation
Gresart Ceramics Pvt. Ltd.	100% (step-down subsidiary)	Full Consolidation

Source: Company's annual report FY2022

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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