

Press Release

Yak Granite Industries Private Limited

February 07, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE B**' (read as **ACUITE B**) to the Rs. 8.00 crore bank facilities of Yak Granite Industries Private Limited (YGPL). The outlook is '**Stable**'.

The reaffirmation of the rating reflects established track record of operations and experienced management. However, the rating is constrained by weak financial risk profile and high working capital intensity of operations.

Incorporated in 1982 by Mr. Badri Narayan, YGPL is engaged in quarrying of granite blocks and processes dimensional granite blocks and monuments. YGPL has processing facility located at Tada (Andhra Pradesh). The company currently has around 30 quarries in Tamil Nadu, Andhra Pradesh and Telangana.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of YGPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Long track record of operations and extensive experience of the promoters**

Incorporated in 1982, the company is managed by Mr. Badri Narayan and his family. The promoters have more than three decades of presence in the granite industry. The company has about 30-40 quarries spread across the States of Tamil Nadu, Andhra Pradesh and Telangana. Majorly, it focuses on dimensional granite blocks and monuments. Acuite believes that promoter's longstanding presence in the industry is expected to support its revenue profile over the medium term.

Weaknesses

- **High working capital intensity of operations**

YGPL's Gross Current Assets (GCA) were at 776 days as on March 31, 2018, due to sizeable inventory of 180 days and elongated receivable cycle of 564 days. The company maintains high inventory as it has to stock different shades and varieties of granite and it procures granite blocks and other raw materials as and when it is available. High working capital intensive operations lead to high utilisation of its working capital limits at about 99 percent over the past six months ended December 2018. Acuite believes that any significant increase in the working capital or any write-off on debtors will have a bearing on the liquidity profile of the company.

- **Weak financial risk profile**

YGPL's financial risk profile is weak marked by high gearing (debt-to-equity), total outside liabilities to total net worth (TOL/TNW) and moderate coverage indicators. The gearing and TOL/TNW stood high at 2.98 and 4.27 times as on March 31, 2018 against 1.69 and 3.10 times as on March 31, 2017. The debt of Rs. 31.78 crore includes long term debt of Rs.20.78 crore which consists of Rs.6.14 crore from banks and Rs.14.64 crore from NBFC, and short term debt of Rs.11.00 crore for FY2018. The net worth is modest at Rs.10.66 crore as on March 31, 2018. YGPL's debt protection metrics of interest coverage ratio and net cash accruals to total debt stood average at 1.5 and 0.04 times as on March 31, 2018. Acuite believes that with modest accruals to repayment obligations and routine capex, the financial risk profile is expected to be at similar levels over the medium term.

• Modest scale of operations coupled with de-growth in operating income

YGPL's operating income (OI) witnessed de-growth of ~20 percent to Rs.20.63 crore in FY2018 from Rs.24.88 crore in FY2017 due to lower-than anticipated export demand. Further, the company faces competition from other granite quarrying companies which constrained the revenue growth. YGPL reported revenues of Rs.12.00 crore for 9MFY2019 and the revenues are expected to be range bound of Rs.20.0-25.0 crore over the medium term.

Liquidity Position:

YGPL's liquidity is stretched as reflected by high bank limit utilisation, high GCA and moderate accruals to repayment obligations. Its bank lines are fully utilised over six months through December 2018. Its operations are highly working capital intensive as reflected in GCA days of 775 as on March 31, 2018. The company reported cash accruals of Rs.1.28 crore in FY2018; its accruals are expected in the range of Rs.1.3 - 1.8 crore over the medium term, against which its repayment obligations are about Rs.0.86 crore restricting the financial flexibility. To support the operations and increase receivables, the promoters have brought in unsecured loan of about Rs.5.5 crore in FY2018. Its receivables are stretched in terms of receivable days of 564 as on March 31, 2018 with outstanding receivables of Rs.30.6 crore. Acuite believes that the liquidity of the YGPL continues to be stretched owing to modest accruals and high GCA.

Outlook: Stable

Acuite believes that the outlook on YGPL will remain 'Stable' over the medium term on account of its experienced management and reputed clientele. The outlook may be revised to 'Positive' if the company achieves better than expected growth in revenues while maintaining its profitability margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	20.63	23.27	24.88
EBITDA	Rs. Cr.	4.38	5.70	3.49
PAT	Rs. Cr.	(0.04)	1.45	0.46
EBITDA Margin	(%)	21.22	24.49	14.01
PAT Margin	(%)	(0.19)	6.21	1.87
ROCE	(%)	8.59	16.08	18.69
Total Debt/Tangible Net Worth	Times	2.98	1.69	1.75
PBDIT/Interest	Times	1.50	2.36	1.52
Total Debt/PBDIT	Times	7.25	3.17	4.64
Gross Current Assets (Days)	Days	776	496	431

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-Jan-2018	Secured Overdraft	Long Term	8.00	ACUITE B / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE B / Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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