



Pokarna Limited

17th November, 2021

Department of Corporate Services, Bombay Stock Exchange Limited, Phiroze Jeebhoy Towers, Dalal Street, Mumbai – 400001. Scrip code: 532486	Listing Department, National Stock Exchange of India Ltd, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400051. Symbol: POKARNA
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Dear Sir,

Sub: Revision in credit rating.

Ref: Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements), Regulations, 2015.

We refer to above and hereby inform you that as per the latest review of credit rating done by CRISIL, the credit rating of the Company has been upgraded as follows:

S. No.	Details of facility	Revised rating	Previous rating
1.	Total Bank Loan facilities	Rs.60 Cr.	Rs.131 Cr.
2.	Long term rating	BBB/Positive	BBB-/stable
3.	Short term rating	A3+	A3

This is for your information and record.

For Pokarna Limited


Babita Chandrakar
Company Secretary



Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

November 16, 2021 | Mumbai

Pokarna Limited

Ratings upgraded to 'CRISIL BBB/Positive/CRISIL A3+'

Rating Action

Total Bank Loan Facilities Rated	Rs.60 Crore (Reduced from Rs.131 Crore)
Long Term Rating	CRISIL BBB/Positive (Upgraded from 'CRISIL BBB-/Stable')
Short Term Rating	CRISIL A3+ (Upgraded from 'CRISIL A3')

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its ratings on the bank facilities of Pokarna Ltd (PL; part of the Pokarna group) to '**CRISIL BBB/Positive/CRISIL A3+**' from 'CRISIL BBB-/Stable/CRISIL A3' and. Also the rating on the proposed long-term bank loan facility of Rs 71 crore has been **withdrawn** at the company's request which is in line with CRISIL Ratings' policy for withdrawal of ratings.

The rating action reflects moderation of project risk with commencement of commercial operations at the new quartz surfaces unit and stabilisation of operations, as per expected timelines. The Pokarna group had undertaken a large capital expenditure (capex) of over Rs 470 crore for setting up a greenfield quartz surfaces manufacturing unit, which was commissioned on March 24, 2021. Post commencement of operations and quick stabilisation, revenue is estimated to grow by 60-70% in fiscal 2022, to over Rs 470 crore, led by robust demand. Operating margin should also sustain at 30-32% over the medium term, resulting in healthy debt protection metrics. Financial risk profile will continue to be aided by the adequate net cash accrual and absence of any major debt funded capex plans.

The rating action also factors in sufficient liquidity and financial flexibility, post completion of major capex. Consequently, bulk of the cash accrual will be utilised to fund the incremental working capital requirement and reduction of debt. This in turn is likely to strengthen the capital structure and debt protection metrics. Healthy flow of orders leading to higher capacity utilisation at the new unit, and sustenance of profitability are key monitorables.

The ratings also reflect the established market position of the group in the granite and engineered stones businesses, supported by extensive experience of its promoters, established client relationships and the healthy operating margin. These strengths are offset by susceptibility to moderate demand risk and fluctuations in foreign exchange (forex) rates.

Analytical Approach

To arrive at the ratings, CRISIL Ratings has combined the business and financial risk profiles of PL and Pokarna Engineered Stone Ltd (PESL; rated 'CRISIL BBB/Positive/CRISIL A3+'), together referred to as the Pokarna group.

Unsecured loans (outstanding at Rs 10.72 crore as on March 31, 2021) extended by the promoters and related parties, have been treated as debt as these may not be retained in the business over the medium term.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation

Key Rating Drivers & Detailed Description

Strengths:

Established position in the granite and engineered stones business, supported by extensive experience of the promoters and established client relationships:

The Pokarna group is the largest exporter of quartz surfaces in India, and a leading exporter of granite slabs and blocks. PESL benefits from its established relationship with Breton S.p.A and access to its patented technology for manufacturing quartz surface products. Nearly three-decade-long experience of the promoters in the stone industry, long track record of operations and healthy relationships with customers have enabled the group to establish a strong market position.

Healthy operating margin

Sales of high-margin premium quartz surfaces and granite slabs have helped the group sustain a healthy operating margin of about 30% and above, over the five fiscals through March, 2021.

Weakness:

Exposure to moderate demand risk: Capacity utilisation at granite processing units has been low over the past few years, amidst heightened competition from countries such as Brazil and China. Further, as the quartz surfaces manufacturing unit has commenced commercial operations only recently, the group remains exposed to moderate demand risk. Pick up in capacity utilisation will be a key monitorable.

Susceptibility to demand from key markets and fluctuation in forex rates: Exports accounted for over 85% of revenue of the group. Hence, growth remains highly dependent on demand from key markets, such as USA and China, which together formed almost 80% of total revenue in fiscal 2021. The operating margin also remains susceptible to volatility in forex rates.

Liquidity: Adequate

Estimated net cash accrual of Rs 100-120 crore in fiscals 2022 and 2023, should comfortably cover the maturing term debt of Rs 18-20 crore. Bank limit utilisation was moderate, averaging about 65% over the 12 months ending July 31, 2021. Liquidity is further aided by unencumbered cash and bank balance of about Rs 7 crore maintained in the current and Exchange Earners' Foreign Currency Account (EEFC) accounts, over the 12 months through July 2021.

Outlook: Positive

The Pokarna group is expected to benefit from the new capacity addition, following commencement of operations at its new quartz surfaces manufacturing unit.

Rating Sensitivity Factors

Upward factors

- Higher capacity utilisation at the new unit, resulting in revenue of over Rs 470-500 crore and a steady operating margin
- Sustained improvement in capital structure and debt protection metrics aiding the financial risk profile

Downward factors

- Significant decline in revenue and profitability of the group, resulting in subdued debt protection metrics
- Any unanticipated capex, any large dividend payout or stretch in the working capital cycle, leading to increase in gearing ratio to over 1.25 times

About the Group

Set up in 1991, by Mr Ashok Jain, Mr Gautam Jain, Mr. Prakash Jain, and their family members, PL exports granites from its quarries in Andhra Pradesh, Telangana and Tamil Nadu. It also manufactures ready-made garments under the Stanza brand. PESL manufactures engineered quartz (also known as engineered stone) under the Quantra brand.

For the six months ended September, 2021 the group reported consolidated revenue and profit after tax of Rs 254 crore and Rs 24.4 crore, respectively, as against Rs 121 crore and Rs 11.66 crore, respectively, for the corresponding period of the previous fiscal.

Key Financial Indicators - - Consolidated

Particulars	Unit	2021	2020
Revenue	Rs.Crore	295.4	394.3
PAT	Rs.Crore	28.3	70.7
PAT Margin	%	9.6	17.9
Adjusted debt/Adjusted networkth	Times	0.91	0.94
Interest coverage	Times	4.0	5.9

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	2	NA	CRISIL BBB/Positive
NA	Export Packing Credit	NA	NA	NA	20	NA	CRISIL A3+
NA	Foreign Currency Term Loan	NA	NA	Sep-2024	12.44	NA	CRISIL BBB/Positive
NA	Foreign Documentary Bills Purchase	NA	NA	NA	10	NA	CRISIL A3+
NA	Letter of Credit	NA	NA	NA	8.5	NA	CRISIL A3+
NA	Long Term Loan	NA	NA	Apr-2022	2.46	NA	CRISIL BBB/Positive
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	4.6	NA	CRISIL BBB/Positive
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	71	NA	Withdrawn

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Pokarna Engineered Stone Limited	Full	Wholly-owned subsidiary
Pokarna Limited	Full	Parent company

Annexure - Rating History for last 3 Years

Instrument	Current			2021 (History)		2020		2019		2018		Start of 2018
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	51.5	CRISIL A3+ / CRISIL BBB/Positive	01-02-21	CRISIL BBB-/Stable / CRISIL A3	22-05-20	CRISIL BBB-/Negative / CRISIL A3	27-11-19	CRISIL A3/Watch Developing	31-07-18	CRISIL BBB-/Stable / CRISIL A3	CRISIL BBB-/Stable / CRISIL A3

									/ CRISIL BBB-/Watch Developing			
			--		--	24-02-20	CRISIL A3/Watch Developing / CRISIL BBB-/Watch Developing	24-09-19	CRISIL BBB-/Stable / CRISIL A3		--	--
Non-Fund Based Facilities	ST	8.5	CRISIL A3+	01-02-21	CRISIL A3	22-05-20	CRISIL A3	27-11-19	CRISIL A3/Watch Developing	31-07-18	CRISIL A3	CRISIL A3
			--		--	24-02-20	CRISIL A3/Watch Developing	24-09-19	CRISIL A3		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Cash Credit	2	CRISIL BBB/Positive
Export Packing Credit	20	CRISIL A3+
Foreign Currency Term Loan	12.44	CRISIL BBB/Positive
Foreign Documentary Bills Purchase	10	CRISIL A3+
Letter of Credit	8.5	CRISIL A3+
Long Term Loan	2.46	CRISIL BBB/Positive
Proposed Long Term Bank Loan Facility	4.6	CRISIL BBB/Positive
Proposed Long Term Bank Loan Facility	71	Withdrawn

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Mining Industry
CRISILs Criteria for Consolidation

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