



# Granite Sector Sector Risk Index

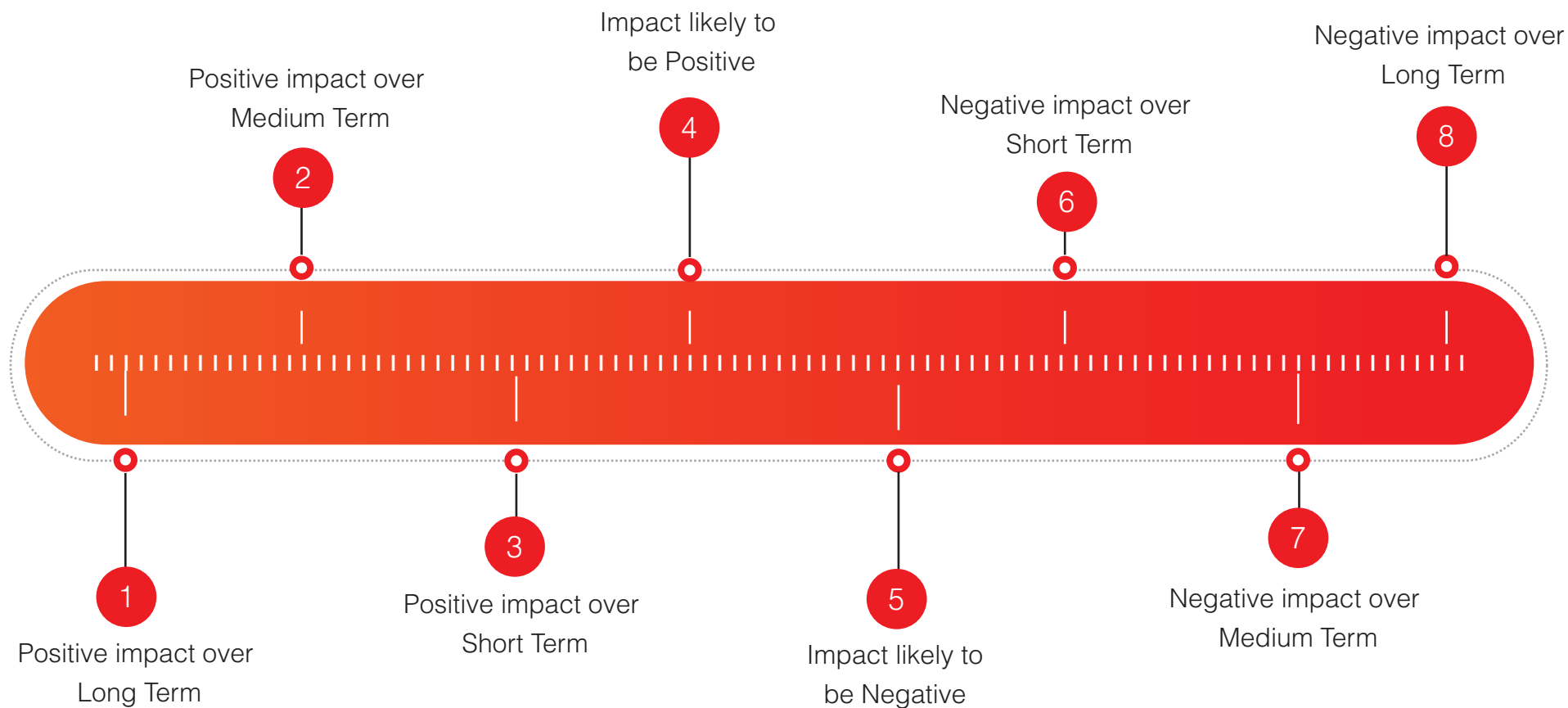
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# Explanation of Sector Risk Index

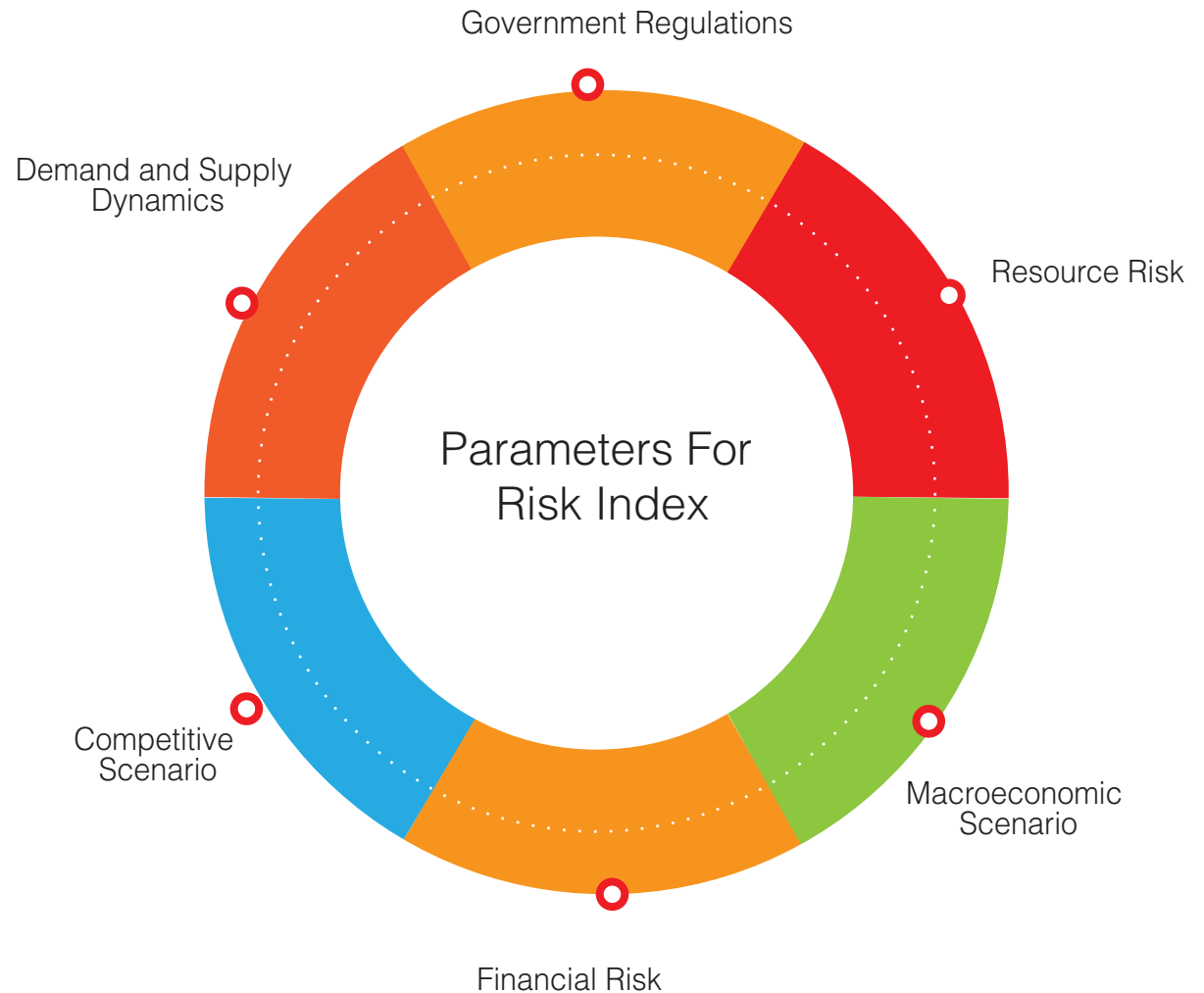
Sector Risk Index reflects the effect that various factors shall have on the business prospects and operating environment of a sector over the next 12 months. The risk index arrived at is an aggregate of the individual scores assigned to the relevant sector parameters-identified.

The scores have been graded on an 8 point scale with 1 indicating low risk and 8 indicating high risk.



# Parameters for Risk Index

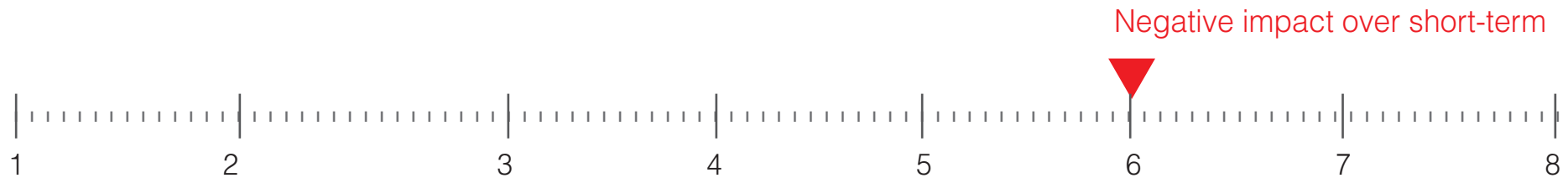
The selected parameters are government regulations, demand supply dynamics, competitive scenario, macro-economic variables, resource risk and profitability and cost structure. The scores given to individual parameters reflect the extent of positive/negative impact on the business operating environment.



India's granite sector is expected to grow at a compound annual growth rate (CAGR) of 16–18% during the period FY 2014–19 on the back of increasing demand from the USA and Chinese markets.



# Risk Index of Granite Sector



## ↑ Demand and Supply Dynamics

With an expected recovery in the domestic and global housing market the granite sector of India is likely to grow by 16–18% during the period FY 2014–19.

## ↑ Macro Economic Scenario

In FY 2014–15 India's gross domestic product (GDP) has shown a growth rate of 7.29% compared to 6.90% in FY 2013–14.

## ↓ Resource Risk

India's granite sector has high resource risk as granite is declared as minor mineral and extraction of granite is controlled by the State governments furthermore, restrictions are also impose under the foreign trade policy to import granite.

## ↓ Competitive Scenario

Due to the availability of large number of small-sized players the granite sector is highly competitive in India.

## ↓ Financial Risk

High receivables period may lead to weak liquidity for the players in the industry.

## ↔ Government Regulations

The central government has promoted uniform framework to extract granite scientifically however the policies reforms for allocation, extraction and processing of granite in India are under consideration.

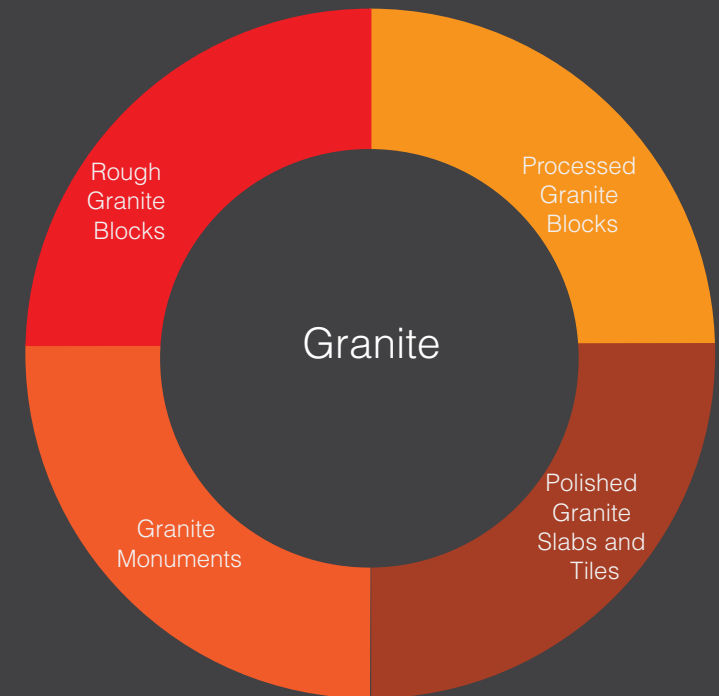
# Executive Summary

- 1** Globally, granite production is dominated by China, Brazil, India, Saudi Arabia, Italy and Spain. In the financial year (FY) 2013–14, the total production of granite in the world was estimated to be around 310–350 million square meter in which a major proportion of around 80–90% is contributed by China, Brazil and India.
- 2** India has abundant resources of granite, which makes her one of the top three granite producers and top five granite exporters in the world. The country is attributed with more than 66% of around 300 shades available in the world and accounted for approximately 16% of global granite production in FY 2013-14.
- 3** In the FY 2013-14, the market size of India's granite reached approximately the United States dollar (USD) 2.62 billion, mainly contributed by granite export, which has crossed the mark of USD 2.00 billion.
- 4** Due to the growing demand from global housing construction segment, India's granite sector has increased with a CAGR of approximately 15% from FY 2009–10 to FY 2013–14.
- 5** There are restrictions to import granite under the Foreign Trade Policy, 2009-2014 and as per the Mines and Minerals Development and Regulation (MMRD) Act, 1957, granite is a 'Minor Mineral', thus its lease policies, royalties and mining are controlled by the respective state governments.

# Product Profile

- 1** Granite is a multi-coloured granular rock that can be quarried as a dimension stone and further classified into different colours, textures and dimensions which is majorly used in real estate, infrastructure, decoration and monuments.
- 2** Its product range mainly includes rough granite blocks, processed granite blocks, polished granite slabs, polished granite tiles and granite monuments.
- 3** India, which probably has the largest reserves of granite, has more than 200 shades of granite with different colours and textures in India, which constitute around two-third proportion of varieties in the world.

Figure 1. Product Profile of Granite



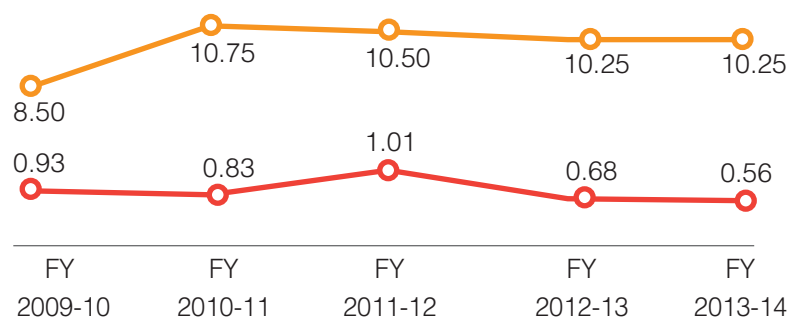


# Macro Economic Analysis

## Macro-Economic Growth

- 1 With GDP growth rate of 5.08% in FY 2012–13 and 6.90% in FY 2013–14, India's economy is on the path to recovery and has shown a growth rate of 7.29% in FY 2014–15.
- 2 The central government is planning to support manufacturing and industry sector in India with better foreign trade relations.
- 3 The mining and quarrying sub sector, which had been handicapped with a negative growth rate of 2.01% in FY 2012–13, reflected a positive data with a growth rate of 5.26% in FY 2013–14 and 2.40% in FY 2014–15.

Figure 2. Interest Rate Trends (Domestic and International)



■ USD LIBOR (%) ■ Lending Rate / Base Rate (%)

Source: www.bloomberg.com

## Interest Rate Risk

- 1 The interest rates in the international market, have been low in FY 2013–14 compared to FY 2009–10.
- 2 The domestic interest rate decreased in FY 2012–13 over FY 2011–12 and remained stable in FY2013–14, whereas international interest rate reached at the lowest levels in FY 2013–14 compared to the preceding five years since FY 2009–10, which have been providing a relief in the borrowing cost to the companies dependent on the Indian or outside sources of funds.
- 3 A lower financing cost may provide an advantage to increase the net profit margin or price competitiveness in the market.



# Macro Economic Analysis

The granite mining and processing companies have been maintaining a stable debt-equity ratio between 0.66 times and 0.78 times during the period from FY 2009–10 to FY 2013–14. The sector is considered as less capital-intensive, hence required limited amount of capital. The interest coverage ratio (ICR) of the sector decreased in FY 2013–14 compared to FY 2012–13, while it reached the highest levels during the FYs gone by.

Figure 3. Interest Rate Risk

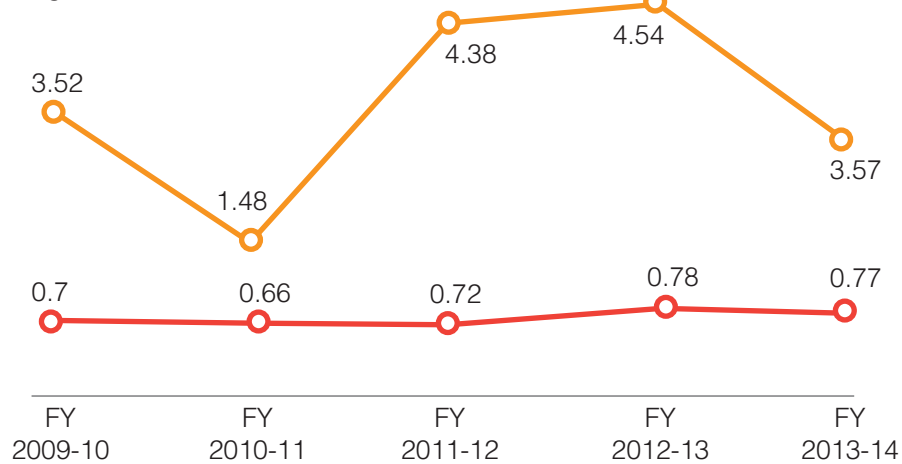
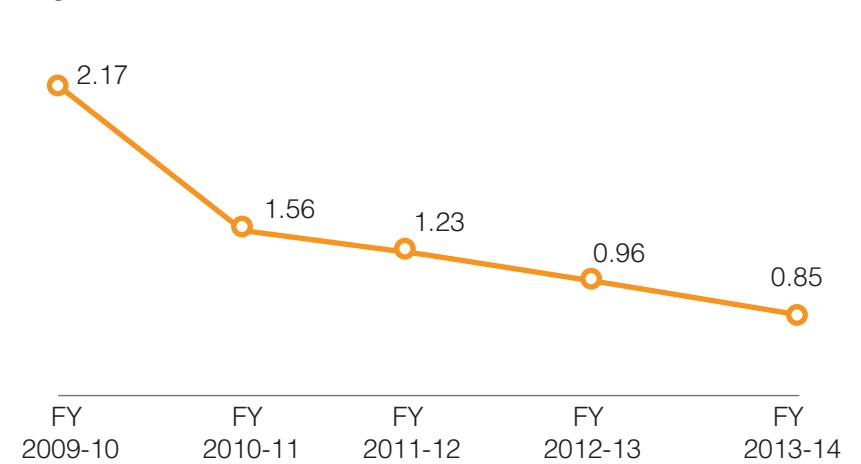


Figure 4. Interest as a % of Sales



■ Interest Coverage Ratio (Times) ■ Debt-Equity Ratio (Times)



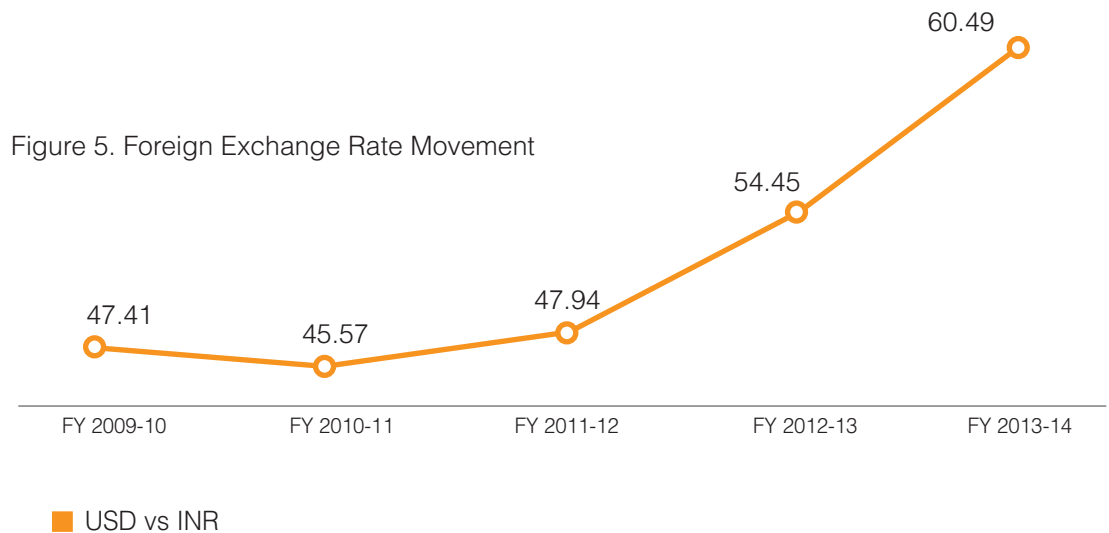
# Macro Economic Analysis

## Foreign Exchange Fluctuations

**1** The granite sector, being an export-oriented sector, is a source of foreign currency, primarily in Chinese Yuan Renminbi (CNY), USD, Pound Sterling (GBP), Euro (EUR) and Japanese Yen (JPY). The appreciation in the value of Indian rupee (INR) against these currencies may only increase the foreign exchange risk for the companies in the sector.

**2** Import of granite from abroad is quite low due to the restrictions under Foreign Trade Policy of India; hence, there is a minimum impact of foreign exchange risk on the sector.

Figure 5. Foreign Exchange Rate Movement



# Government Regulations

## Duty Structure

In India, an excise duty of 12.00% is imposed on granite blocks, granite slabs and granite tiles as per the Union Budget for 2014–15. Excise duty has been increased in March 2012 to 12.00% from 10.00% and has remained unchanged since then.

Under the import policy notes, the customs duty on granite blocks, granite slabs and granite tiles is 10.00% in FY2013-14. It has reduced from 12.50% to 10.00% in March, 2007 and since then it is stable.



# Government Regulations

## Government Initiatives

- 1** In order to promote the sector with scientific mining and environmental pollution control, the central government has prescribed a uniform framework under Granite Conservation and Development Rules, 1999.
- 2** The government has mandated the guidelines for the prospective mining licence approvals, area and lease period for mining and renewal policies.
- 3** In the Foreign Trade Policy, 2009-14, the government has imposed restrictions on the import of rough granite dimensional blocks, whereas the import of finished polished granite tiles and slabs are reserved under the Open General Licence, which may confine the domestic players' trade activities.

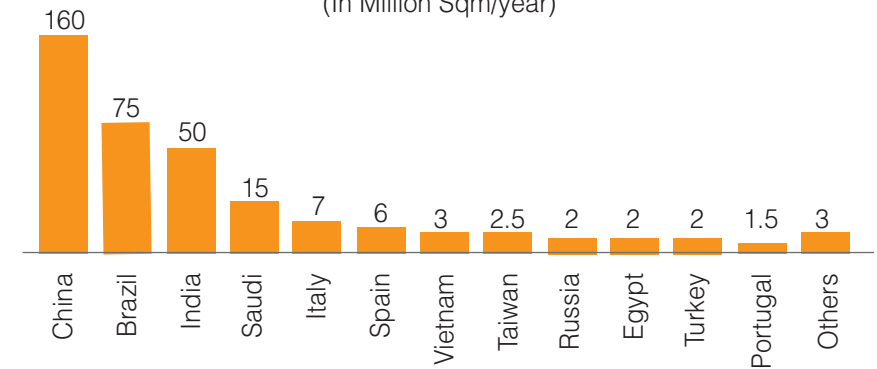


# Demand Supply Dynamics

## Demand Growth

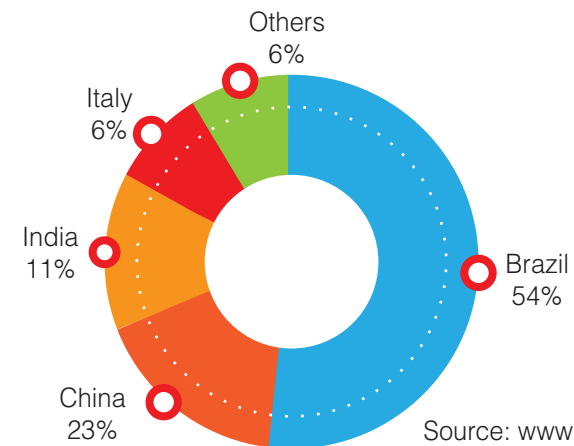
- 1 The granite sector in India has grown with a CAGR of approximately 15% during the period from FY 2009–10 to FY 2013–14 and is expected to grow at the same pace during the period from FY 2014–15 to FY 2019–20.
- 2 The sector has been showing growth on YoY basis due to the gradual increase in the global demand of granite, consequently leading to the export.
- 3 USA is the biggest consumer of granite, creating the largest demand in the world. Brazil, China, India and Italy are the major players to fulfil the demand of USA. In 2014, the nations contributed around 54%, 23%, 11% and 6%, respectively, against the total imports of USA.

Figure 6. Estimated Production of Granite in the World During FY 2014-15  
(In Million Sqm/year)



Source: www.litonline.com

Figure 7. Country Wise Share in Granite Imports of USA in FY 2013-14



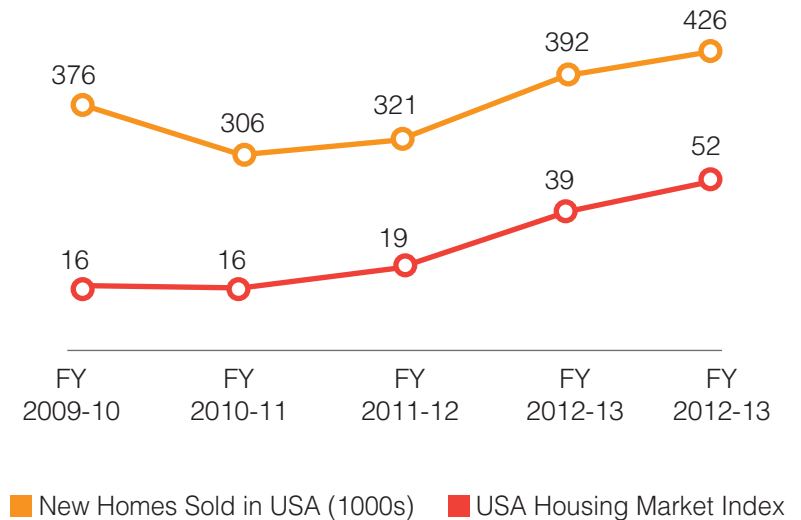
Source: www.stoneupdate.com

# Demand Supply Dynamics

## Demand Drivers

- 1** Granite is the main raw material required in housing sector, which is used in building, furnishing and decorating; therefore, real estate is the main demand driver for granite sector.
- 2** The real estate industry in India has shown a CAGR of around 14% during the period from FY 2009–10 to FY 2013–14.
- 3** The government has also announced the allocation of funds in the Rural Housing Fund (RHF) and the National Housing Bank (NHB) in the Union Budget 2014–15.
- 4** USA Housing Market Index has increased at a CAGR of approximately 34% during the period from FY 2009–10 to FY 2013–14.
- 5** USA housing trend clearly shows that during the period from FY 2009–10 to FY 2010–11, there has been a slump in the sales of new homes, which shot up in FY 2011–12 and remained positive with a declining growth rate in FY 2012–13 and declined dramatically in FY 2013–14.
- 6** It is expected that the global real estate industry may grow with a faster rate in FY 2014–15 due to the economic recovery in USA.

Figure 8. Housing Market Trend in USA



Source: www.huduser.org

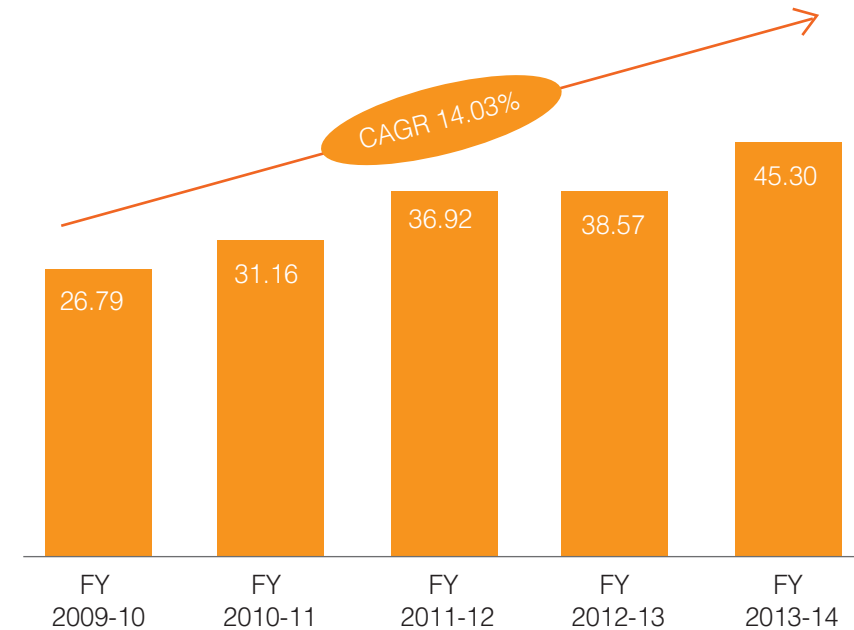


# Demand Supply Dynamics

## Import Export Trend

- 1** The import of granite has increase with a CAGR of around 14.03% during the period from FY 2009–10 to FY 2013–14.
- 2** In India the import of granite is restricted therefore import as a percentage of export has been approximately 2.27% in FY 2013–14.
- 3** Granite in India is mainly imported from China, Norway and Brazil.

Figure 9. India's Import Trend (In USD Million)



Source: [www.commerce.nic.in](http://www.commerce.nic.in)



# Demand Supply Dynamics

## Import Export Trend

- 1 There has been a growth with a CAGR of 10.84% in the export of Indian granite during the period from FY 2009–10 to FY 2013–14.
- 2 India is a net exporter of granite and in FY 2013–14 the total value of export has constituted approximately 76% of total market size of the sector.
- 3 The country exports major proportion of granite mainly to China, USA, Turkey, Germany and UK.

Figure 10. Country Wise Contribution to Export Revenue in FY 2013-14

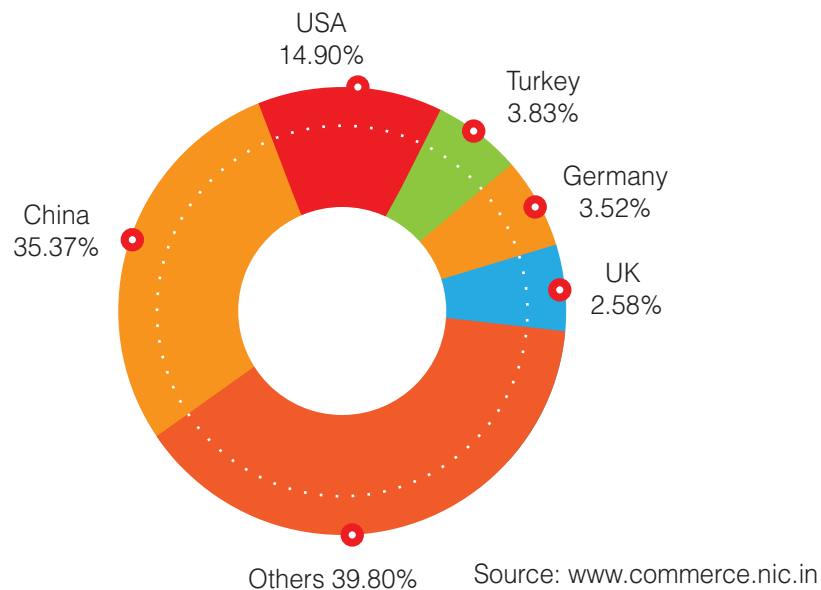
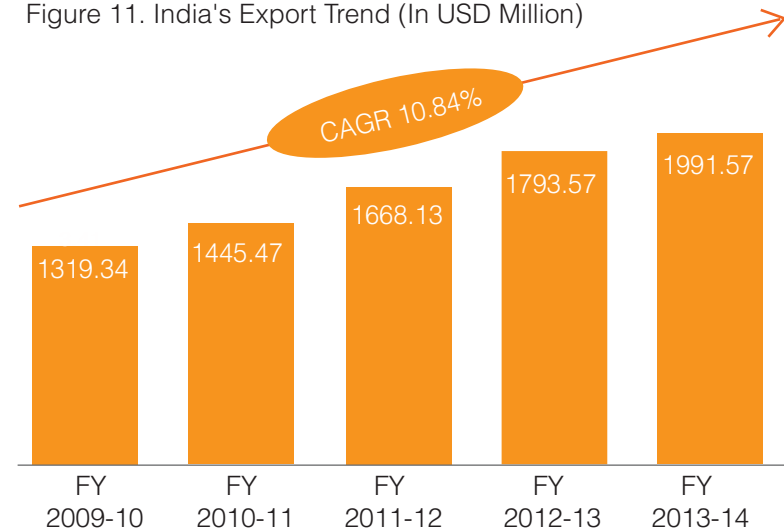


Figure 11. India's Export Trend (In USD Million)



Source: www.commerce.nic.in

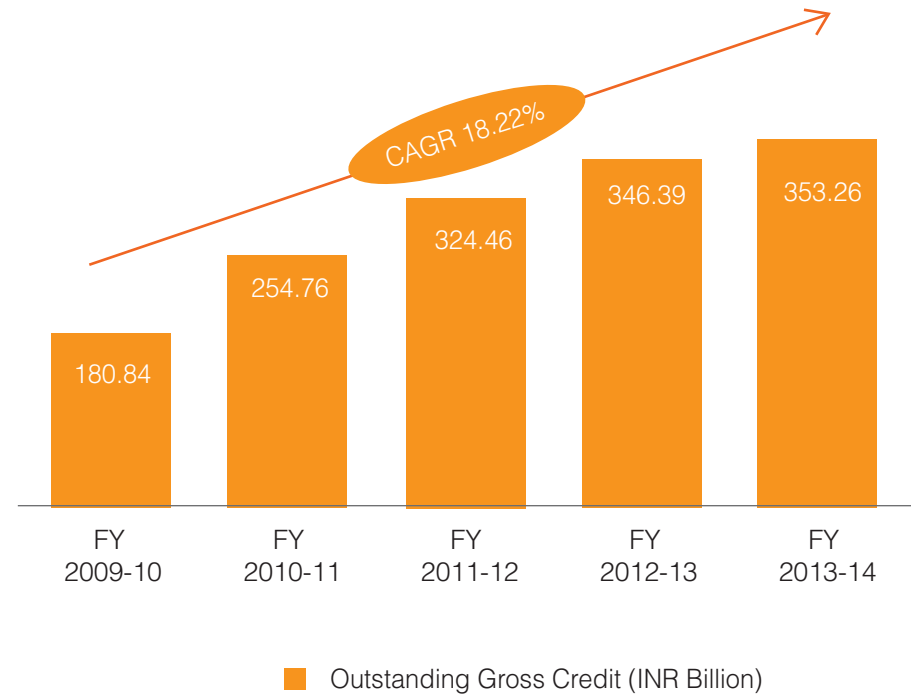
# Demand Supply Dynamics

## Growth in Gross Credit Deployment

As per the industry wise deployment of gross bank credit data, banks have been deploying funds in mining and quarrying (including coal) sector with a CAGR of 18.22% during the period from FY 2009–10 to FY 2013–14.

The growth rate in deployment in the sector remained low in FY 2012–13 and FY 2013–14 with a growth rate of 6.76% and 1.98%, respectively.

Figure 12. Gross Bank Credit Deployment



Source: Reserve Bank of India



# Demand Supply Dynamics

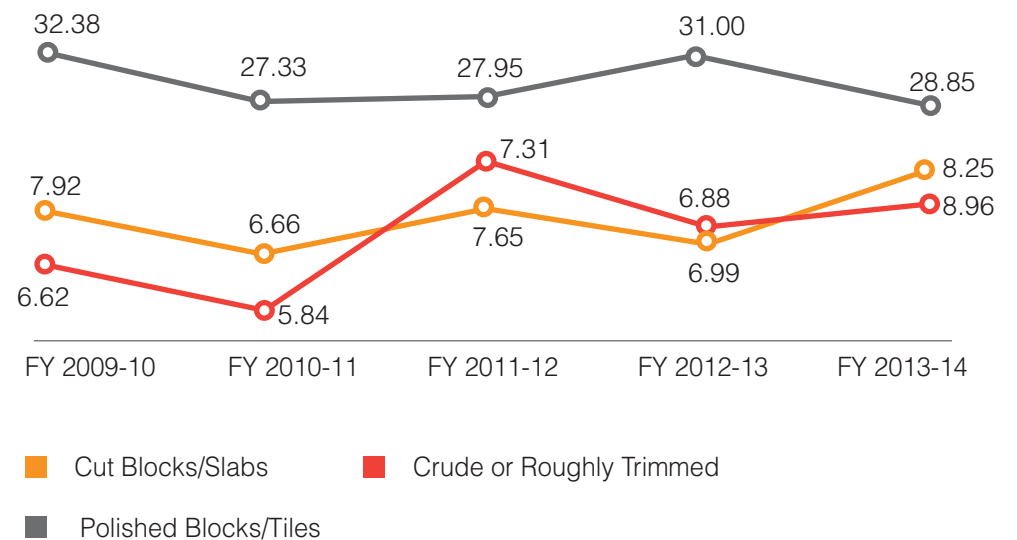
## Price Trends

There have been fluctuations in the prices of granites with a mixed trend during the period from FY 2009–10 to FY 2013–14.

The prices of polished blocks/tiles have remained higher than the cut blocks/slabs and the crude or roughly trimmed granite. In the international market, the prices of polished blocks/tiles have decreased in FY 2013–14 as compared to FY 2012–13.

The prices of the cut blocks/slabs and the crude or roughly trimmed granites have increased during the same period. The price of granite is positively correlated to the price and demand in real estate and construction industries.

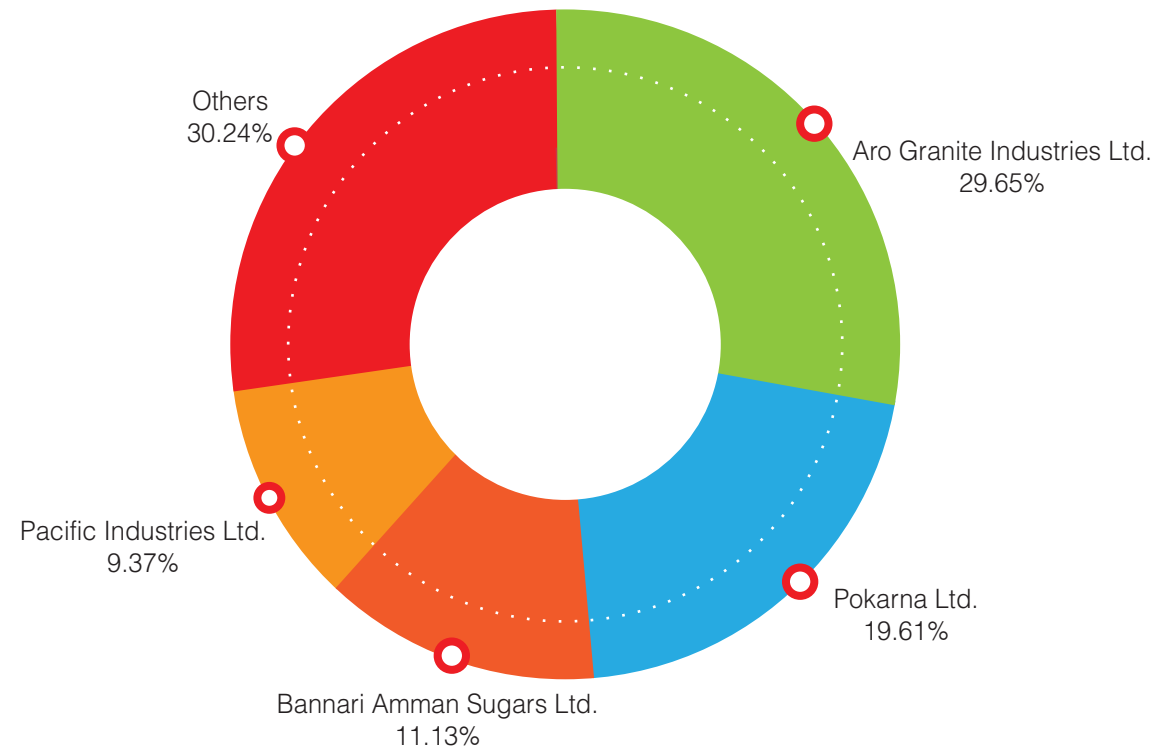
Figure 13. Granite Price Trend (In INR '000 per Tonne)



# Competitive Scenario

- 1** The granite industry is fragmented in nature due to the availability of large number of players and limited number of large-scale market players.
- 2** Most of the players in the industry are of small and medium scale due to the regulations regarding the allocation of mines by the state governments.
- 3** Aro Granite Industries Ltd. and Pokarna Ltd. are the market leaders in the mining, processing and export of granite. Both the companies are export-oriented and export their products mainly to USA, China and Europe.

Figure 14. Market Share in FY 2013-14



Source: Prowess CMIE



# Competitive Scenario

- 4** Despite the stern competition from countries like China, Brazil, South Africa and Saudi Arabia, Indian granite prices are competitive in the international market.
- 5** The range of quality and the available variety of Indian granite with its applications in different industries make it advantageous in the several countries.
- 6** The granite sector players in India are not dependent on the import; they extract granite by operating the mines on long-term lease agreements, which control the cost of raw materials and provide price advantage on the selling of final product.



# Resource Risk

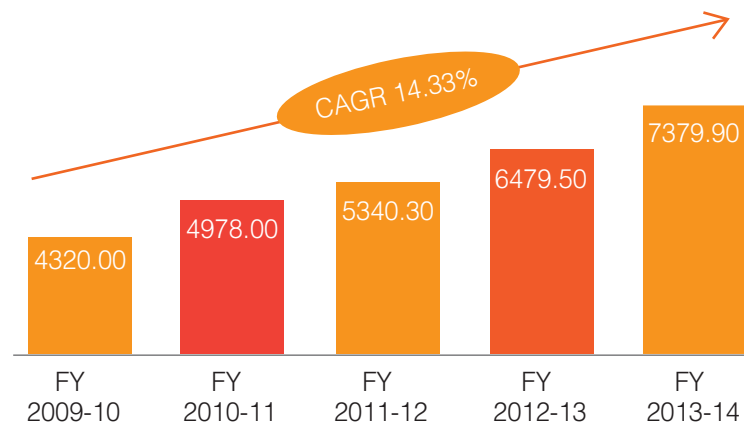
- 1** Despite the fact that India has abundant reserves of granite, raw materials' availability is the biggest challenge faced by the industry players.
- 2** MMRD Act, 1957, has declared granite as a 'Minor Mineral'; therefore, the mining and processing of granite is controlled by respective state governments. In order to maintain the ecosystem and ensure environment protection, granite mining is prohibited in most of the areas.
- 3** The granite sector players in India are mostly dependent upon the allocated captive mines, which are leased by state governments. Therefore, royalty has to be paid to respective state governments for the leased period.
- 4** The amount of royalties, which are correlated to the quality and quantity of the granite, are decided by the state governments. In the present scenario, different states are charging different rates of royalties ranging between INR 1,000 and INR 4,000 per cubic meter of granite.
- 5** The import dependency of the granite sector in India is very less due to the regulations in the Foreign Trade Policy of the central government. Therefore, the sector has low risk of foreign market fluctuations on its production.



# Financial Risk

- 1 During the period FY 2009–10 to FY 2013–14 the net sales granite sector has increased at a CAGR of 14.33%.
- 2 After a dramatic increase in FY 2010–11, the steep fall in the growth rate of turnover in FY 2011–12 can be attributed to the sluggish demand from the domestic housing and construction segment and a decrease in the GDP growth rate from 8.9% to 6.7%.
- 3 In the FY2012–13 again the growth in the net sales has shoot up due to the boost in the global demand consequently the export of granite has increased by 22.12 percent. The growth rate in the sales of the sector has decreased in the FY 2013–14 due to the decline in the rate of US housing industry during same period.

Figure 15. Sales Trend (In INR Million)

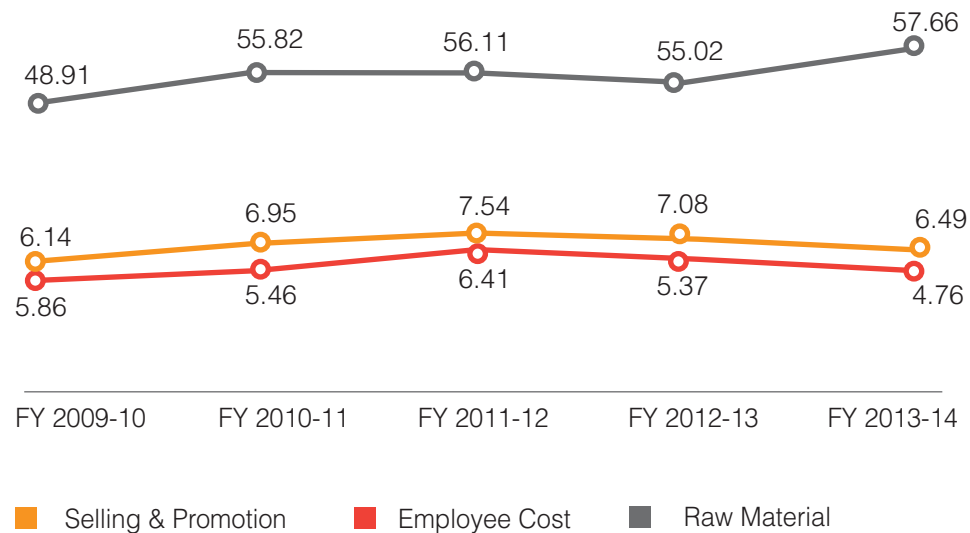


Source: CMIE Prowess

# Financial Risk

- 1 The raw material cost as a percentage of sales has increased in FY 2013–14 by 8.75% from FY 2009–10 due to the increase in the amount of royalties on the mining of granite.
- 2 On the other side, the employee cost has increased to 6.49% in FY 2013–14 from 6.14% in FY 2009–10.
- 3 Selling and promotion expenses of granite sector has decreased during the period FY 2009–10 to FY 2013–14.

Figure 16. Cost Structure (%)





# Financial Risk

Key Indicators	Unit	FY 2013-14
EBITDA Margin	%	15.85
Net Profit Margin	%	5.96
Return on Capital Employed	%	11.84
Return on Equity	%	9.61
Current Ratio	Times	1.50
Quick Ratio	Times	0.79
Debtor Days	Days	93
Payable Days	Days	49
Inventory Days	Days	24
Interest Coverage Ratio	Times	8.85
Total outside liabilities/ Total Net worth	Times	0.94
Sales to Capital Employed	Times	0.76
Debt-Equity Ratio	Times	0.70
Asset Turnover	Times	0.81

Source: CMIE Prowess

Sample Set : 6 Companies



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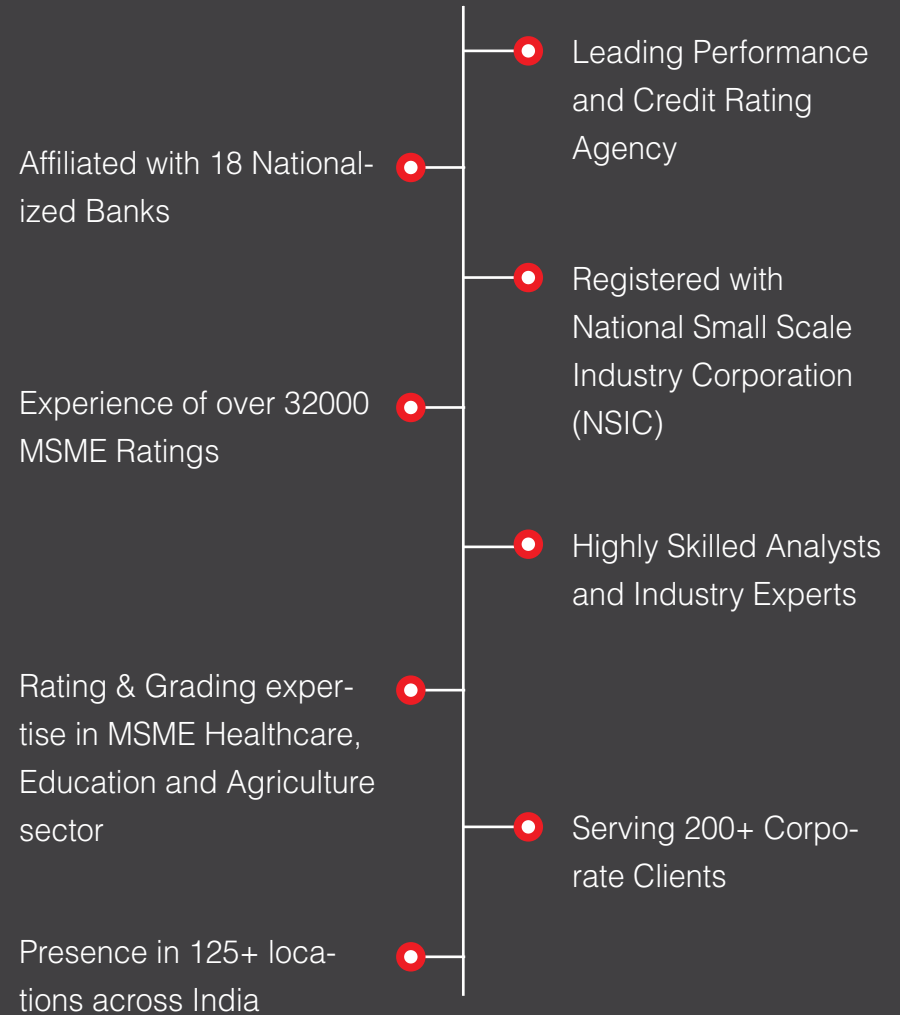
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To realise our goal we have committed ourselves to providing the stakeholders with objective, timely, independent and forward-looking credit and performance opinions. The foundation of that dedication is embedded in several core principles — objectivity, quality, independence, integrity and transparency.



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