

Press Release

Zeon International

February 15, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 25.00 Crore
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has assigned short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 25.00 crore bank facilities of Zeon International (Zeon). The outlook is '**Stable**'.

Zeon was established in 2004 by Partners, Mr. C Yuvraj, Mr. K Nallasivam, Mr. K P Karthikeyan, Mr. M S Senthikumar and Mr. R Gurukarthik. Zeon is a trading concern which is the authorised distributor of spandex yarn pan India for three of the world's largest manufacturers of spandex yarn. Zeon imports and stocks yarn in their warehouses in Tirupur, New Delhi, Mumbai, Ludhiana and Kolkata to meet customers' demands instantaneously. Zeon is the largest importer and distributor of spandex yarn in India with close to 40 percent market share. They are associated with 1500 customers in the Textile industry with pan India presence.

Analytical Approach

For arriving at the rating, Acuite has considered the standalone business and financial risk profile of Zeon.

Key Rating Drivers

Strengths

- **Experienced promoters:**

Zeon's promoters have an experience of over 15 years in the textile industry. Extensive industry experience of promoters has enabled the firm to manage business cycles and establish good relationships with its customers. Further, the firm has established tie-ups with reputed manufacturers such as Invista Singapore Private Limited, TK Chemica Corporation and Yantai Tayho, among others, which mitigate the risk of supply constraints.

- **Diversified customer base:**

Zeon has highly diversified end users, customer base and geographical presence which will prevent them from down side if there is any issue in some markets. The firm is supplying material to more than 1500 customers in the textile industry. Out of the total revenues of Rs.75.41 crore in FY2018, ~20 per cent revenue is from top 10 customers with an average length of relationship of over a decade.

- **Improvement in revenues and profitability:**

Zeon's revenues improved to Rs.75.41 crore in FY2018 from Rs.59.73 crore in FY2017. The profitability margins have improved marginally, the EBITDA margins stood at 2.92 percent in FY2018 as against 2.46 percent in FY2017 and 1.70 percent in FY2016. The net profit margins have also improved at 3.12 percent in FY2018 as against 2.09 percent in FY2017 and 1.36 percent in FY2016.

Weaknesses

- **Working capital intensive operations**

Zeon's operations are working capital intensive marked by high Gross Current Asset (GCA) of 138 days in FY2018 compared to 164 days in FY2017. The GCA days are mainly dominated by high debtor days of 81 days in FY2018 compared to 103 days in FY2017. Acuite believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

- **Susceptible to volatility in the raw material availability and changing government regulations**
Polytetram ethylene ether glycol (PTEG) and methylene diphenyl diisocyanate (MDI) are raw materials required for spandex production which is derived from petrochemical feedstock. Stringent government norms to curb carbon footprints are likely to hinder industry's growth. Imported Spandex yarn industry has witnessed levy of heavy import duties in the past few years which can affect the revenues of Zeon due to its dependency on imports from Chinese and Korean markets.

Liquidity Profile

Zeon has average liquidity profile marked by net cash accruals of about Rs.4.70 crore during FY2016-18. The firm has short long term debt obligations of Rs. 6.89 crore in FY2018. The cash accruals of the firm are estimated to remain between Rs.2.00 – 3.50 crore in the near to medium term, while its repayment obligations are estimated to be nil in the medium term, as the firm has not undertaken debt funded capital expenditure in the medium term. The firm's working capital operations are high as marked by Gross Current Asset (GCA) days of 138 in FY2018. The firm had unencumbered cash and bank balances of Rs. 0.13 crore as on March 31, 2018. The current ratio of the firm stood comfortable at 1.84 times as on March 31, 2018. Acuite believes that the liquidity of the firm is likely to remain comfortable over the medium term on account of average cash accruals, low debt repayments and high GCA days over the medium term.

Outlook: Stable

Acuite believes that Zeon will maintain a 'stable' business risk profile over the medium term. The firm will continue to benefit from its experienced promoters and established track record of operations. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues while achieving sustained improvement in operating margins and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of deterioration in the firm's liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	75.41	59.73	75.55
EBITDA	Rs. Cr.	2.20	1.47	1.28
PAT	Rs. Cr.	2.35	1.25	1.03
EBITDA Margin	(%)	2.92	2.46	1.70
PAT Margin	(%)	3.12	2.09	1.36
ROCE	(%)	11.51	8.59	16.68
Total Debt/Tangible Net Worth	Times	0.43	0.34	0.42
PBDIT/Interest	Times	21.06	3.88	2.79
Total Debt/PBDIT	Times	2.76	2.93	3.52
Gross Current Assets (Days)	Days	138	164	102

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Letter of credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A4+

Sub-limit of letter of credit of Rs. 5.00 crore as cashcredit

Sub-limit of letter of credit of Rs. 25.00 crore as buyerscredit

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About Acuité Ratings & Research:

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