

Press Release

Zeon International

January 13, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	3.00	ACUITE BB Stable Assigned	-
Bank Loan Ratings	30.90	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	33.90	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BB**' (read as **ACUITE double B**) and reaffirmed the short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs 33.90 Cr bank facilities of Zeon International (ZI). The Outlook is '**Stable**'

Rationale for the rating

The rating has been assigned on the basis of the extensive experience of the partners in textile industry supported by long term relationship with suppliers and customers. The company has above average financial risk profile. However the rating strengths are partially offset by high working capital requirement and volatility in raw material prices.

About the Company

Tamil Nadu based Zeon International was established in 2004 by its partners, Mr. C Yuvraj, Mr. K Nallasivam, Mr. K P Karthikeyan, Mr. M S Senthilkumar and Mr. R Gurukarthik. The firm is an authorised distributor of different spandex yarn manufacturers. Zeon imports and stocks yarn in their warehouses in Tirupur, New Delhi, Mumbai, Ludhiana and Kolkata. Firm sells yarn to trader and fabric manufacturers across India.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profiles of ZI to arrive at the rating.

Key Rating Drivers

Strengths

Experienced partners

Zeon's partners have 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 and suppliers. Further, the firm has established tie-ups with reputed manufacturers such as TK Chemical Corporation, Yantai Tayaho Advanced and

Zhejiang Huafon among others, which mitigate the risk of supply constraints and manage business efficiently.

Financial risk profile

The company's financial risk profile is marked by healthy net worth, comfortable gearing and debt protection metrics. The tangible net worth of the company increased to Rs 20.01 Cr as on March 31, 2022 from Rs.16.65 Cr as on March 31, 2021. Gearing of the company is healthy which stood at 0.27 times as on March 31, 2022 as against 0.06 times as on March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood healthy at 1.47 times as on March 31, 2022 as against 1.64 times as on March 31, 2021. The healthy debt protection metrics of the company is marked by Interest Coverage Ratio at 19.55 times as on March 31, 2022 and Debt Service Coverage Ratio (DSCR) at 19.55 times as on March 31, 2022. Net Cash Accruals/Total Debt (NCA/TD) stood at 1.11 times as on March 31, 2022. Acuite believes financial risk profile will remain at similar level over medium term with no major debt funded capex plans.

Healthy scale up of operations

The company has registered revenue of Rs136 crores in FY2022 as against Rs 73.08 crores in FY2021 due to increasing demand for spandex fibre from various end-user industries and an increase in application scope owing to its superior properties. The revenue for 8 months ended FY23 stood at Rs.57.75 crores. Acuite believes revenue of the firm is likely to remain at a similar level over the medium term due to volatile nature of yarn prices.

Weaknesses

Decline in Profitability Margins

The firm has a volatile profitability margin as reflected from its EBITDA Margin of 4.38% in FY 22 as against 7.94% in FY21. Reasons for decline in margin is mainly due to rise in its raw material, which is a crude oil derivative, which exhibits high price volatility. The EBITDA Margin for 8 months ended FY23 stood at 0.87 crores. Further, the textile industry is inherently cyclical and an industry-wide downturn is likely to affect the Company's Margin.

High Working capital requirement

The Company's operations are working capital-intensive, as reflected in gross current assets of around 145-150 days over the three years ended March 31, 2022, driven by inventory and debtor days. The working capital management of the company has improved in FY22, marked by Gross Current Assets (GCA) of 115 days in 31st March 2022 as compared to 203 days on 31st March with increased efficiencies in inventory and debtor management. Acuite believes the working capital management will remain at the same level due to its nature of business.

Vulnerability of revenue and profitability to fluctuations in prices of raw materials and finished goods and inherent cyclicity in the textile industry:

The company's primary raw material, Spandex yarn, which exhibits high price volatility, which exposes the firms' profitability to adverse fluctuations in the prices of raw materials and its ability to pass on to their customers. The textile industry in India is characterised by high levels of fragmentation and low entry barriers across the value chain. As a result, the firm faces intense competition from other established players in the domestic and international markets.

Rating Sensitivities

- Improvement in operating revenue
- Maintenance of conservative capital structure

Material covenants

None

Liquidity Position Adequate

The firm has an adequate liquidity profile backed by low working capital utilization of 23.5% over six months ended November, 2022. Net cash accrual stood at Rs.6.03 crores against no debt repayment obligations. Current ratio stood comfortable at 1.62 times in FY22. GCA days of the firm stood at 115 days in FY22 as against 203 days in FY21 due to decrease debtor and Inventory days. Acuite expects the liquidity position of the group will remain at adequate level over the medium term backed by steady accruals and no major debt funded capex plans.

Outlook: Stable

Acuite believes that ZI will maintain a 'stable' outlook in the medium term backed by its promoter's extensive experience and established relations with customers. The outlook may be revised to 'Positive' if the firm registers healthy revenue growth along with further improvement in the working capital management. Conversely, the outlook may be revised to 'Negative' if any stretch in working capital cycle leading to the deterioration of financial risk profile

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	136.00	73.08
PAT	Rs. Cr.	5.57	5.56
PAT Margin	(%)	4.10	7.61
Total Debt/Tangible Net Worth	Times	0.27	0.06
PBDIT/Interest	Times	19.55	19.97

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitie: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Oct 2021	Letter of Credit	Short Term	30.90	ACUITE A4+ (Upgraded from ACUITE A4)
27 Jan 2021	Letter of Credit	Short Term	25.00	ACUITE A4 (Downgraded and Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE BB Stable Assigned
Kotak Mahindra Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.90	ACUITE A4+ Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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