Press Release

Aglon Industries Private Limited

February 03, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs.66.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** and short-term rating of **ACUITE A3 (read as ACUITE A three)** on the Rs.66.00 crore bank facilities of Aglon Industries Pvt. Ltd. (AIPL). The outlook is **'Stable'**.

Rating assigned to AIPL, takes into account experienced management and long track record of group companies, sustainable albeit low operating margin, moderate financial risk profile and efficient working capital operations. However, susceptibility to fluctuation in raw material prices, supplier concentration risk and high competitive intensity although strong presence in the textile hub partly offset the strengths.

About the Company

Surat-based AIPL is a joint venture of Goenka Group promoted by Mr. Vishnu Goenka and Agarwal Group promoted by Mr. Lokpriya Agarwal. The company was established in 2015 to manufacture nylon yarn. While, the production was started in December 2016. The company produces variety of nylon yarn such as fully drawn yarn, mother yarn, partially oriented yarn and air-textured yarn, among others. While fully drawn yarn and mother yarn contribute to around 60-70per cent of the company's overall revenue.

About the Group

Agarwal Group and Goenka Group are in wholesale yarn trading since past 3-4 decades. While Agarwal Group started its business in 1975 with establishment of Agarwal Fabtex Pvt. Ltd. (AFPL), Sansar Texturises Pvt. Ltd. was the first yarn trading company of Goenka Group established in 1994. In 2015, both these groups jointly started AIPL to produce nylon yarn, which is a backward integration for their nylon yarn trading businesses. In 2018, the groups established one more trading company named Aglon Impex Pvt. Ltd. (Aglon Impex), which is majorly into nylon trading.

Analytical Approach

Acuité has consolidated financial and business risk profiles of AIPL and two of its group companies - AFPL and Aglon Impex. The consolidation is in the view of common ownership, presence in same business line, operational linkage and synergy benefits. The group is herein referred to as 'Aglon Group.' Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Long track record of operations, experienced management and strong distribution synergies**

Mr. Vishnu Goenka and Mr. Lokpriya Agarwal, promoters of Aglon group, are into the yarn trading business since past 3-4 decades. Such a rich experience, has enabled group in strong product placement and marketing strength over the years, resulting in healthy business growth. In the last two years ending March 31, 2020 (Provisional), Aglon Group's revenue has increased at a CAGR of about 26per cent and its net profit has surged over 29per cent, annually during the same period.

Over the years, the group has also established long standing relationship with dealers, which is paving the way for Aglon group in the form of strong distribution synergies. Strong support of the distribution synergies and experienced management has resulted in more than two-fold annual growth of AIPL in just three full years of commercial operations ending March 31, 2020.

Acuité believes that distribution synergies would not only support growth of Aglon group going ahead but would also help expand its market share in the nylon yarn segment, which is relative niche segment in the textile sector.

- **Moderate financial risk profile**

Aglon Group has moderate financial risk profile marked by improved net worth, modest coverage indicators and moderate debt-protection matrix. From Rs.35.46 crore as on March 31, 2018, the group's net worth improved to Rs.41.85 crore as on March 31, 2019 and further to Rs.49.85 crore as on March 31, 2020 (Provisional). This was mainly on the back of growth in net profit, major portion of which was retained into the business. While the group's profit after tax rose from Rs.3.96 crore in FY18 to Rs.6.37 crore in FY19, it increased modestly to Rs.6.63 crore in FY20 (Provisional).

Aglon group has shown consistent improvement in its gearing level (debt to equity ratio) in the past three years ending March 31, 2020 (Provisional). From 3.16 times in as on March 31, 2018, the group's debt to equity ratio improved to 2.71 times as on March 31, 2019 and further to 1.6 times as on March 31, 2020 (Provisional). Besides higher net worth, lower debt levels enabled the group to lower its gearing level. As on March 31, 2020 (Provisional), total debt of the group stood at Rs.79.74 crore vis-à-vis Rs.113.61 crore as on March 31, 2019. The debt level as of March 2020 (Provisional) comprises long-term debt of Rs.29.99 crore, short-term debt of Rs.35.86 crore and unsecured loans from related parties of Rs.13.88 crore. With conservative leverage policy of the group, Acuité believes that the gearing position would continue to improve going ahead and would trend below one by March 2023. The group has been making prepayment of term loans since the past 2 years to lower the leverage level.

Moderate profitability along with lower debt levels has kept Aglon Group's interest coverage ratio (ICR) above average in the past three years ending March 31, 2020 (Provisional). The group's ICR remained almost at the year-ago level of 2.3 times in FY20 (Provisional). Its debt service coverage ratio (DSCR), however, deteriorated marginally to 1.33 times in FY20 (Provisional) from 1.55 times in FY19 due to higher term-debt repayment. In FY21, DSCR would lower further as the group continued to made higher repayment of term loans. However, DSCR would start improving from FY22-FY23 to around 1.4 times. While ICR is expected to continue to improve going ahead and would reach to around 3 times by FY23. TOL/TNW stood at 2.25 times in FY20 (Provisional) compared to 3.56 times in FY19. This would improve to around 1.5 times over a medium term.

- **Sustainable albeit low operating margin**

In the past three years ending March 2020 (Provisional), Aglon group's EBITDA margin has remained in the range of 5-5.6per cent. From 5.05per cent in FY18, the group's EBITDA margin expanded to 5.69per cent in FY19 and remained almost at the same level in FY20 (Provisional). The group's revenue, however, has grown by 6.74per cent in FY20 (provisional). Backward integration by in-house manufacturing of nylon yarn through AIPL has propelled the group's operating profitability.

AIPL has been witnessing continuous expansion in its operating margin since past three years. From 7.94per cent in FY18, AIPL's EBITDA margin increased to 8.95per cent in FY19 and further to 9.54per cent in FY20.

In FY21, EBITDA margin of the group would see a sharp jump mainly due to lower raw material prices and some cost reduction on account of Covid-19. However, Acuité believes that, the group's EBITDA would be around 5.5-6per cent level over a medium term.

- **Improving working capital efficiency**

Aglon Group has shown improvement in working capital efficiency in the past. From 128 days in FY18, the group's gross current assets (GCA) days improved to 103 in FY19 and further to 75 days in FY20 (Provisional). The efficient working capital cycle is on account of moderate inventory level maintained by the group and lower credit period offered to debtors. While the group's inventory days remained at around 21-25 days in the last three years ending March 31, 2020 (Provisional), debtor days drifted down to 41 in FY20 (Provisional) from 56 days in FY18. Bank limit utilization of AIPL was around 84-85per cent in the last 12 months through October 2020 and that of AFPL and Aglon Impex was around 49-50per cent.

Though in FY21, GCA days would increase to around 125 days on account of Covid-19- led disruptions, Acuité believes that it would remain in the moderate range of 95-100 days over a medium term.

Weaknesses

- **High supplier concentration risk**

AIPL has high supplier concentration with top two suppliers accounting for over 60per cent and top 5 suppliers accounting for over 75per cent of the company's overall purchases in FY20. This is in comparison to 51-52per cent and 65-66per cent, respectively, in FY19. Further, 80-90per cent of the company's raw material supply comes from Taiwan.

Acuité believes that supplier concentration risk would continue to remain high for AIPL even going ahead. Therefore, any supply disruption from the top few clients or from Taiwan would sharply hurt the overall performance and financial risk profile of the company and so of the overall group.

- **Susceptibility to fluctuation in raw material prices**

Aglon Group's profitability is susceptible to fluctuations in the prices of major raw material i.e. nylon chip, which is a crude oil derivate. Therefore, sudden change in crude oil prices would have strong impact on the group's profitability.

- **High competitive intensity although strong presence in the textile hub**

The textile sector is highly fragmented with stiff competitive intensity, which restricts pricing power of the players. More than 80per cent of Aglon Group's sales are generated from Gujarat (mainly from and around Surat), which is the textile hub of India. The state produces around 30per cent and 56per cent of the country's total production of cotton and denim, respectively. Moreover, the state has around 38per cent share in the manufacturing of man-made filament fabric and 30per cent in woven fabric.

Liquidity Position: Adequate

Aglon Group has adequate liquidity backed by sufficient net cash accruals supported by fund infusion by promoters. Though in FY20 (Provisional), the group's NCA rose moderately to Rs.11.93 crore from Rs.11.51 crore in FY19, it was sufficient to take care of debt repayment obligation of Rs.6.39 crore for FY20 (Provisional).

Repayment obligations for FY21 and FY22 are expected to be around Rs.11.53 crore and Rs.8.00 crore, respectively, against projected NCA of Rs.10.94 crore and Rs.12.25 crore, respectively. The gap between the debt obligations and NCA for FY21 will be taken care of by fund infusion of Rs.5.65 via unsecured loans. While the group's current ratio stood at 1.17 times as on March 31, 2020 (Provisional), it is expected to improve gradually to moderate level of around 1.4-1.5 times over a medium term.

Rating Sensitivities

- Sharp rise in raw material prices would deteriorate the overall financial risk and liquidity profile
- Deterioration in working capital management leading to stretched liquidity

Material Covenants
No major covenants

Outlook: Stable
Acuité believes that Aglon Group will maintain 'Stable' outlook on the back of experienced management with long track record of operations, sustainable operating margin and efficient working capital operations. The outlook may be revised to 'Positive' in case the group reports higher-than-expected growth in revenue and improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case the group's operating performance gets deteriorated thereby hurting its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	424.00	397.22
PAT	Rs. Cr.	6.63	6.37
PAT Margin	(%)	1.56	1.60
Total Debt/Tangible Net Worth	Times	1.60	2.71
PBDIT/Interest	Times	2.38	2.33

Status of non-cooperation with previous CRA (if applicable)
• CARE vide its press release dated July 14, 2020 has mentioned AIPL's rating as 'B+/Stable Issuer Not Cooperating' as on July 14, 2020.
• India Ratings vide its press release dated January 25, 2019 has mentioned AIPL's rating as 'BB/A4+ Issuer Not Cooperating' as on January 25, 2019.

Any other information
Not Applicable

Applicable Criteria
• Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
• Trading Entities - https://www.acuite.in/view-rating-criteria-61.htm
• Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-60.htm
• Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00^	ACUITE BBB-/ Stable(Assigned)
Term Loan	13.07.2015	Not Applicable	31.08.2024	12.97	ACUITE BBB-/ Stable(Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00^^	ACUITE BBB-/ Stable(Assigned)
Term Loan	31.03.2016	Not Applicable	30.06.2024	7.68	ACUITE BBB-/ Stable(Assigned)

Term Loan*	27.04.2020	Not Applicable	30.09.2024	3.44	ACUITE BBB-/ Stable(Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00^^	ACUITE BBB-/ Stable(Assigned)
Term Loan*	10.04.2020	Not Applicable	30.09.2024	5.47	ACUITE BBB-/ Stable(Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.44	ACUITE BBB-/ Stable(Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 (Assigned)

*Loans taken under Covid-19 schemes;
^includes Rs.20.00 crore sub-limit of buyers credit/LC/PC/PSCFC/PCFC and Rs.6.25 crore of working capital demand loan
^^including LC sub-limit

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About Acuité Ratings & Research:
Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,546 credit 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 Mumbai.