

Press Release

Aglon Industries Private Limited

February 11, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	65.00	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	1.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	66.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

The reaffirmation in ratings are on account of satisfactory financial performance during FY21, resulting in improved profitability level and margin. Moderate, albeit improving financial risk profile, efficient working capital management and adequate liquidity. The group also takes into account established track record of operations of promoter. The above ratings are, however underpinned by execution of debt funded capex undertaken by the company, margins susceptible to fluctuation in raw material prices, moderate client concentration and highly competitive industry.

About the Company

Aglon Industries Private Limited (AIPL), is a Surat based company. The company was incorporated in 2015 and is jointly owned by Goenka Group promoted by Mr. Vishnu Goenka and Agarwal Group promoted by Mr. Lokpriya Agarwal. The company is engaged in manufacturing of nylon yarn. The manufacturing facility was set up in 2015, however, the production commenced in December 2016. The product profile of the company comprises of variety of nylon yarn such as fully drawn yarn, mother yarn, partially oriented yarn and air-textured yarn, among others.

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

The team has considered the consolidated financial and business risk profile of Aglon Industries Private Limited, and two of its group companies (referred as Aglon Group); Agarwal Fabtech Private Limited and Aglon Impex Private Limited. The consolidation is in view of common ownership, presence in same line of business, operational linkages and synergy benefits.

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. The long track record of operations has enabled group in strong product placement and marketing strength over the years, resulting in healthy business growth. 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. 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.

Satisfactory financial performance during FY21 with improvement in profitability level and margin

The group reported total operating income of Rs.413.61 crore during FY21 against Rs.424.00 crore in FY20, reporting marginal y-o-y de-growth of 2.45%. The moderation in revenue is mainly on account of COVID induced lockdown during which the operations across all the three entities were halted. The same resumed gradually from Q2FY21. The operating profit, however increased from Rs.23.91 crore in FY20 to Rs.33.58 crore in FY21. The same is due to decline in raw material price; nylon chip whose price is directly related to that of crude oil price during the year. Hence, decline in raw material price resulted in increase in operating profit level. This, further resulted in increase in operating profit margin from 5.0% in FY20 to 7.88% in FY21. In line with increase in operating profit, net profit of the group also increased to Rs.16.31 in FY21 from Rs.6.63 in FY20.

Moderate, albeit improved financial risk profile

The capital structure as represented by debt-equity ratio improved marginally to 1.14 times during FY21 as against 1.60 times during FY20. There has been increase in term debt in the form of GECL loans. However, the impact of the same has been offset by increase in tangible net worth on account of accretion of profit to reserve. The interest coverage ratio also improved from 2.38 times in FY20 to 3.84 times in FY21. The net cash accruals to total debt also improved to 0.29 times during FY21 as against 0.15 times during FY20. The total outstanding liability to tangible net worth also improved to 1.61 times during FY21 vis-à-vis 2.25 times during FY20. Similarly, the Debt-EBITDA also improved to 2.18 times in FY21 as against 3.24 times in FY20.

The group would be availing additional loan in medium for the undertaking of capex. Hence Aglon Group's ability to maintain its financial risk profile is yet to be seen.

Efficient Working Capital Management

The Gross current asset days of the group increased at 88 days in FY21 (75 days in FY20). The debtors' days increased to 50 days in FY21 as against 41 days in FY20. The same is due to delayed realization of receivables led by COVID-19. The group on an average extends credit period of 30-45 days to its client. Further, as the raw material (nylon chips) are imported from Taiwan, AIPL maintain RM stock for around 1 month and finished goods stock for 7 days. The group also receives credit period of 14-20 days from its suppliers. The average utilisation for the past 12 months ending November 2021 remained at moderate level of 79.13%.

Weaknesses

Debt Funded capex

The company has proposed to set up a solar based power plant of 4.8 MW for captive power consumption in Kutch, Gujarat. The company has also proposed to set up a solar

based rooftop power plant of 600 KW for captive consumption at existing production facility. In addition to this, the company has also planned to increase the existing capacity. The entire project is to be executed at an aggregate cost of Rs.133.24 crore. The same is to be funded through the combination of Term loan, unsecured loan and equity. The company has incurred total cost of Rs.54.20 crore on building, machineries and other expenses. The entire project is to be executed by January 2023. The successful execution of project would result in reduction in power cost. Any higher than envisaged debt arising plans or delay in project execution would be important from credit perspective.

Margins susceptible 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.

Moderate client concentration

The company derives around 70-75% of revenue from top 10 customer and thus has moderate client concentration. The customers are mostly in the form of dealers as they don't directly sell it to customer. The company extends credit period of 1-1.5 months to its client. The company has a dealer network of 10-15. On geographical front, major portion of revenue is derived from Gujarat due to the presence of many textile companies.

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

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

>Successful execution of project within estimated cost and time, thereby resulting in reduction in power cost

>Improvement in revenue and profitability margins.

>Any delay in execution of project or higher than envisaged debt resulting in elongation of working capital cycle and deterioration in financial risk profile.

Material covenants

None

Liquidity: Adequate

The liquidity position of the group remains at adequate level with net cash accruals of Rs.21.86 crore during FY21 against debt repayment of Rs. 6.71 crore. In addition to this, the group also maintains cash and bank balance of Rs.6.46 crore as on March 31, 2021. The current ratio during the period remained at 1.93 times during FY21. The group is expected to achieve NCA of around Rs.33 crore during FY22-23 against debt repayment of Rs.10-20 crore. The DSCR of the group continues to remain above unity.

Outlook: Stable

Acuité believes that the outlook on AIPL will remain 'Stable' over the medium term on account of its experienced promoter and long track record of operations. The outlook may be revised to 'Positive' in case of significant improvement in scale of operations while maintaining the profitability and successful execution of project. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or reduction in operating income of the company and delay in commencement of project.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	413.61	424.00
PAT	Rs. Cr.	16.31	6.63
PAT Margin	(%)	3.94	1.56
Total Debt/Tangible Net Worth	Times	1.14	1.60
PBDIT/Interest	Times	3.84	2.38

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

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Feb 2021	Bank Guarantee	Short Term	1.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	12.97	ACUITE BBB- Stable (Assigned)
	Proposed Cash Credit	Long Term	0.44	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	7.68	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	5.47	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	3.44	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Cosmos Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- Stable Reaffirmed
Cosmos Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB- Stable Reaffirmed
Central Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.27	ACUITE BBB- Stable Reaffirmed
Cosmos Bank	Not Applicable	Term Loan	Not available	Not available	Not available	10.56	ACUITE BBB- Stable Reaffirmed
Central Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	5.74	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	4.43	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

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