



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Indian Acrylics Limited

February 27, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
Long Term Bank Facilities - Fund Based	125.10	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)
Short Term Bank Facilities - Non-fund based	214.25	IVR A4+ (IVR A Four Plus)
Total	339.35	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Indian Acrylics Limited (IAL) derives comfort from its experienced and resourceful promoters, infusion of funds by the promoters, long and successful track record of the company, state of the art manufacturing facilities with satisfactory capacity utilization and its established relationship with its suppliers. The ratings also positively factors in improvement in its performance in 9MFY20 following moderation in FY19, comfortable capital structure with moderate debt protection metrics and gradual shifting of focus towards high margin yarn segment to drive earnings. However, the rating strengths are partially offset by susceptibility of its profitability to fluctuations in input prices, intense competition prevalent in the textile industry, availability of cheaper substitutes, exposure to foreign exchange fluctuation risk and working capital intensive nature of its operations.

Key Rating Sensitivities:

Upward Factor:

- Substantial and sustained growth in operating income, profitability and cash accrual along with improvement in working capital management
- Sustenance of the capital structure and improvement in debt protection metrics



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- Timely completion of on-going capacity enhancement

Downward factor:

- Moderation in operating income or deterioration in operating margin, impairment in cash accrual, any stretch in the working capital cycle driven by pile-up of inventory or stretched receivables or sizeable capital expenditure affecting the financial risk profile, particularly liquidity.
- Deterioration in overall gearing to over 1.5x and interest coverage to below 2x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced & resourceful promoters and fund infusion by the promoters**

The promoter, Mr Rajinder Kumar Garg is associated with the business since inception and has vast experience in manmade fibre industry and in steel industry. Mr. Garg is the founder of Steel strips group and has also promoted Steel Strips Wheels Limited which is one of the established name in manufacturing of steel wheel rims for the automotive segment. Further, the promoters has supported the business operations of IAL in times of need and has infused equity/quasi equity. During FY19, the promoters have infused fresh unsecured loan of INR 27.42 Crore to support the business activities and undertake to subordinate interest-bearing unsecured loan aggregating to INR 99.19 crore against its bank facilities. The said subordinated unsecured loans are going to retain in the business.

- **Long and successful track record**

IAL was originally formed as a joint sector project by Mr. Rajinder Kumar Garg and the Punjab State Industrial Development Corporation in February, 1986 and consequently it has a long track record of operations of more than three decades. The company is one of the largest producers of acrylics in India.



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- **Established relationship with clientele and suppliers**

IAL has a dominant size and position in acrylic fibre manufacturing. The company's efforts to add value-added products in its portfolio and gradual efforts to move towards high margin yielding yarn manufacturing will translate into a competitive edge in the market. Further, long presence of the promoters in the acrylic fibre manufacturing industry has helped the company in developing longstanding relationship with various intermediaries in the value chain and sells acrylic fibre to all major spinning mills engaged in acrylic yarn manufacturing in India. Besides the domestic market, IAL also caters to the overseas market and derives a substantial portion of its revenues from the export market (~31% of its net sales in FY19).

- **State of the art manufacturing facilities with satisfactory capacity utilization**

The manufacturing facilities of IAL are ISO 9001:2000 certified with other pollution certificates and has best in class facilities to reduce pollution. Further, the facilities of the company are running with healthy capacity utilisation over the years.

- **Gradual shifting of focus towards high margin yarn segment to drive earnings**

IAL is gradually shifting its focus towards high margin yarn segment from manufacturing of acrylic fibres. The company majorly focussed in dyed yarn segment which has higher demand and higher acceptability in the market due to its ready to use nature. The company has already added 54,992 spindles for the manufacturing of worsted acrylic rainbow yarn and acrylic modified cotton yarn. Further, based on high demand and healthy realisations from acrylic worsted yarn segment the company is also in process to add 10000 spindles more at an envisaged cost of ~Rs.54 crore at a debt- equity of 2:1. The project is in its advance stage and is expected to commence operations from June, 2020. The company has incurred ~Rs.45 crore till November 30, 2019.

- **Improvement in performance in 9MFY20 following moderation in FY19**

Total operating income (TOI) of the company grew at a CAGR of ~15% over the last three years (FY17-FY19) with a y-o-y growth of about ~40% in FY19. However, despite healthy growth in scale of operations over the aforesaid period the company has witnessed gradual moderation in its EBIDTA level and EBITDA margin. The moderation was mainly due to compromise in



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margin to attain higher volume sales in a competitive operating spectrum and volatility in cost of raw materials due to volatility in raw material (acrylonitrile) prices which is linked to the crude price during the past three fiscals led to gradual decline in the operating margin. During FY19, due to high volatility in the raw material prices during the year the profitability of company was affected, however, in Q3FY19 the company had received an award of INR 22.54 Cr against a land acquisition compensation which supported the company to post profit for the year. However, the said award is yet to realise and the company is expecting to receive the amount within next six months. During 9MFY20, the performance of the company has improved backed by relatively stable raw material prices and increase in revenue from higher-margin acrylic yarn. The company recorded a total operating income of Rs.576.83 crore with an EBIDTA margin of 5.39% in 9MFY20. Further, the company has pending orders in hand as on date amounts to Rs.188.11 Cr, which is to be executed in the last quarter (during Q4FY20). Going forward, the profitability of the company is expected to improve further as the company is gradually focusing more towards high margin yarn segment.

- **Comfortable capital structure**

The capital structure of the company remained comfortable over the past fiscals. The overall gearing remained comfortable at 0.46x as on March 31, 2019 improved from 1.70x as on March 31, 2018 backed by improvement in its net worth. The net worth stood healthy at of Rs.228.98 crore as on March 31, 2019. To arrive at the net worth, Infomerics has considered Rs.99.19 crore of unsecured loans from promoters/ directors as quasi equity as the same is subordinated to the bank facilities. Further, total indebtedness of the company as reflected by TOL/ANW remained stable and comfortable at 1.51x as on March 31, 2019 (TOL/TNW at 2.67x) improved from 3.13x as on March 31, 2018. The debt protection metrics remained moderate, with interest coverage ratio and Total debt to GCA at 1.13x and 3.59x respectively in FY19. Going forward, Infomerics expects the capital structure to remain comfortable with improvement in debt protection metrics.

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Key Rating Weaknesses

- **Susceptibility to fluctuations in input prices**

The main raw material of the company - acrylonitrile prices is linked to the crude price being crude oil derivatives, witness volatility on account of crude oil prices and international dynamics. The volatility in fibre prices, can also be driven by the domestic/international demand supply situation in the particular fibre or because of exchange rate volatility (affecting landed costs in the domestic market), given that fibre is an internationally traded commodity. Fluctuations in raw material and product prices lead to volatile margins and is a key rating monitorable.

- **Intense competition prevalent in the textile industry and availability of cheaper substitutes**

The company is exposed to intense competition prevalent in the highly fragmented Indian textile industry and faces stiff competition from both organised and unorganised players. Also, the company faces risk from its substitutes such as polyester, cotton and increasing imports leads to cheaper availability of the raw materials. Further, the margins of the company is under continuous threat of dumping by overseas acrylic fibre manufacturers and seasonal product cycle.

- **Exposure to foreign exchange fluctuation risk**

IAL has been hedging a large part of its forex risk through natural operational hedge (~55% imports as a percentage of sales against ~32% exports in FY19) and currency forwards. However, the timing difference of the exports and imports exposes the company towards volatile foreign currency movement. During FY19, the company made a profit from forex fluctuation amounting to Rs.2.27 crore (PY: Rs.4.33 crore).

- **Concentration risk**

IAL has its presence mainly in Punjab, contributing more than 80% to top-line, followed by marginal contribution from other states. The company also generates revenue from exports majorly to Iran (~47% in FY 19 as against 69% in FY18) and China (41% in FY 19 as against 11% in FY18, with export sales contributing 31% in FY19 (30% in FY18) to the top line. This



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implies that IAL is exposed to concentration risk. However, export orders are majorly LC backed mitigating the counterparty risk up to some extent.

- **Working capital intensive nature of operations**

The operations of the company is working capital intensive as the company has to maintain inventory of about three months to support its production as its major raw material is imported and has an average lead time of 2-3 months. Further, the working capital requirements for the company also remained high in order to support its healthy growth in operations. However, the company enjoys a credit period of about 60-90 days from its suppliers. The operating cycle hovered around a month during the last three fiscals. The company is largely dependent on working capital borrowings to fund its working capital requirements. Consequently, average working capital utilization of the company remained around 90% for the past 12 months ended December, 2019.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity position of the company is expected to remain adequate as the company is expected to generate steady cash accrual over the near medium term against its scheduled repayment obligation. Its capex requirements are modular and the company has sufficient gearing headroom on the back of its comfortable capital structure. Further, the resourceful promoters are also expected to infuse further cash support in time of stress. However, the liquidity is constrained due to its working capital intensive nature of its operations. Further, its bank limits remained highly utilized to the extent of ~90% during the past 12 months ended December, 2019 indicating a less liquidity buffer.



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About the Company

Incorporated in 1986, by Mr. R K Garg of Punjab, IAL is engaged in manufacturing of acrylic fibre and yarn and started its operations from 1993. To diversify its operations the company has gradually started manufacturing of acrylic yarns in 2014 and has gradually increase its installed capacity to 54,992 spindles for manufacturing worsted and modified cotton. IAL mostly manufactured dyed yarn (~80% of its total yarn production) and the product manufactured by the company are used for knitting, hosiery, weaving and for manufacturing blankets, rugs and carpets. IAL has a subsidiary named as Carlit Trading Europe S.L.U. (Spain) which is engaged in trading operations in Europe. However, the company has no major operations as of now. The company belongs to the Steel Strips group of companies which is engaged in the manufacturing of automobile wheels, acrylic fibre and civil construction through various companies under its folds.

Financials:

	(Rs. crore)	
For the year ended*/As on	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	525.00	733.41
EBITDA	38.67	32.29
PAT	8.84	11.60
Tangible Net worth	120.27	129.79
Adjusted Tangible Net worth	120.27	228.98
EBITDA Margin (%)	7.36	4.40
PAT Margin (%)	1.66	1.57
Overall Gearing Ratio (x)	1.70	0.46

**As per Infomerics Standards*

^Un-secured loan amounting to Rs.99.19 Cr has been treated as quasi-equity for the calculations mentioned above as the same are subordinated to bank facilities

Status of non-cooperation with previous CRA: Nil

Any other information: Nil



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years					
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17			
1.	Cash Credit	Long Term	30.00	IVR BB+/Stable	-	-	-			
2.	Term Loan	Long Term	95.10	IVR BB+/Stable	-	-	-			
3.	LC	Short Term	213.25	IVR A4+	-	-	-			
4.	BG	Short Term	1.00	IVR A4+						

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Mr. Rajat Maheshwari	Name: Mr. Avik Podder
Tel: (011) 24611910	Tel: (033) 46022266
Email: rmaheshwari@infomerics.com	Email: apodder@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities - CC	-	-	-	30.00	IVR BB+/Stable
Long Term Bank Facilities - Term Loan	-	-	March 2026	95.10	IVR BB+/Stable
Short Term Bank Facilities – LC	-	-	-	213.25	IVR A4+
Short Term Bank Facilities – BG	-	-	-	1.00	IVR A4+