Press Release

Indian Acrylics Limited

November 28 ,2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Facilities	112.45	IVR BB+; Stable (IVR Double B Plus with Stable Outlook)	Reaffirmed	Simple
Short Term Facility	154.00	IVR A4+ (IVR A Four Plus)	Reaffirmed	Simple
Total	**266.45 (Two Hundred Sixty-Six crore and Forty Five lakh Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Indian Acrylics Limited (IAL) continues to draw comfort from experienced & resourceful promoters, long and successful track record, leading Market Position and established relationship with clientele and state of the art manufacturing facilities with satisfactory capacity utilization and moderate capital structure.

However, the ratings strengths are partially offset by weak financial performance in FY22 despite increase in scale of operations though the same improved in H1FY23, deterioration in debt coverage indicators in FY22, susceptibility to fluctuations in input prices, intense competition prevalent in the textile industry and availability of cheaper substitutes, exposure to foreign exchange fluctuation risk and working capital intensive nature of operations

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Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure with further improvement in debt protection indicators.

Downward Factors

- Dip in operating income and/or profitability further impacting the debt coverage indicators and/or further deterioration in the financial risk profile.
- Any further significant rise in working capital intensity or unplanned capex leading to a further deterioration in the liquidity position.

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 names in manufacturing of steel wheel rims for the automotive segment. Further, the promoters have supported the business operations of IAL in times of need and have infused equity/quasi equity.

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 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.

Leading Market Position and established relationship with clientele

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.

State of the art manufacturing facilities with satisfactory capacity utilization though the same declined in FY22

The manufacturing facilities of IAL are 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. However, the capacity utilisation has declined in FY22 due to lower demand for its products on account of Covid-19 Pandemic.. However, the capacity utilisation has improved in April-July, 2022 on account of increase in demand.

Key Rating Weaknesses

Weak financial performance in FY22 despite increase in scale of operations though the same improved in H1FY23

Total operating income (TOI) has increased by ~16.89% to Rs.621.33 crore in FY2022 (Audited) from Rs. 527.59 crore in FY2021 due to high sales realisation of Fibre and yarn. The company has reported operating losses of Rs. 18.46 crore in FY2022 (Audited) as against operating profit of Rs.66.17 crore (12.40%) in FY2021 due to high raw material consumption cost. The company has reported net loss of Rs.76.08 crore in FY2022 (Audited) as against net profit of Rs. 6.28 crore in FY2021 due to operating losses incurred in FY22. The company reported cash loss of Rs. (51.31) in FY2022 (Audited) as against cash profit of Rs. 31.51 in FY2021. However, the company’s financial performance has improved in H1FY23. Total operating income (TOI) in H1FY23 is Rs. 486.63 crore as compared to Rs.245.29 crore in H1FY22; increased by almost ~98%.Company has reported operating profit of Rs. 33.08 crore in FY23 as against operating loss of Rs.11.28 crore. In H1FY23 company has reported net loss of Rs. 0.61 crore due to high raw material consumption cost as against net loss of Rs.40.47 crore. However, the company has reported cash profit of Rs.11.01 crore in H1FY23 as against cash loss of Rs.28.67 crore in H1FY22.

Deterioration in debt coverage indicators though the capital structure remained moderate

The capital structure of the company remained moderate over the past fiscals. Unsecured loans from promoters to the tune of Rs.94.33 Cr as on March 31, 2022(Rs.70.59 Cr as on March 31 2021) has been considered as quasi equity as the same are subordinated to bank debt. The overall gearing remained almost same in the case of tangible net worth (including quasi equity) at 0.69x as on 31 March 2022 as against 0.63x as on 31 March 2021. The tangible net worth (including quasi equity) stood at of Rs.165.70 crore as on March 31, 2022, as against Rs.217.66 crore as on March 31, 2021. Further, total indebtedness of the company as reflected by TOL/TNW (including quasi equity) deteriorated to 2.61x as on March 31, 2022 from 1.64x as on March 31, 2021. The debt protection metrics of the company were weak marked by interest service coverage ratio (ISCR) at (0.54x) in FY2022 (Audited) as compared to 1.91x in FY2021; deteriorated due to operating losses incurred in FY22. The debt service coverage ratio (DSCR) was also weak at (0.29x) in FY2022 (Audited) as compared to 1.33x in FY2021. Total debt to GCA was weak at (2.23x) in FY2022 as against 4.32x in FY2021.

Susceptibility to fluctuations in input prices

The prices of the main raw material of the company – acrylonitrile, 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 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 which leads to cheaper availability of the raw materials. For the competitive landscape, the company faces stiff competition in both domestic and overseas market. 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 operational hedge and currency forwards. However, the timing difference of the exports and imports exposes the company towards volatile foreign currency movement.

Working capital intensive nature of operations

The operations of the company are 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 company is largely dependent on working capital borrowings to fund its working capital requirements. Consequently, average working capital utilization of the company remained around ~74.91% for the past 12 months ended October 2022.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Company

Financial Ratios & Interpretation (Non- Financial Sector)

Criteria of assigning Rating Outlook

Liquidity – Adequate

The company's liquidity is expected to remain adequate as it expects sufficient cushion in its cash accruals vis-à-vis debt repayments, however any shortfall will be met by infusion of unsecured loan by the promoters who have been continuously supporting the business. The average utilization of fund based working capital limits of the company stood moderate at ~74.91 during last 12 months ending 31st October 2022. The current ratio deteriorated to 0.98x as on March 31, 2022 (Audited) as compared to 1.23x as on March 31, 2021. The unencumbered cash and bank balance stood at Rs. 1.87 crore as on March 31, 2022. The operating cycle of the entity is 16 days in FY22 improved from 41 days in FY21 due to decline in inventory period with an increase in scale of operations. Quick ratio of the company stood low at 0.36x as on March 31, 2022 as against 0.27x as on March 31, 2021.

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. The company has the largest acrylic fibre manufacturing facility in India located in Sangrur, Punjab with an installed capacity of 45,000 MT. IAL sells acrylic fibre to all major spinning mills engaged in acrylic yarn manufacturing in India and also exports to many countries. To diversify its operations the company has gradually started manufacturing of acrylic yarns in 2014 and has gradually increase its installed capacity to 55268 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.

Financials (Standalone):

(Rs. Crore)

For the year ended*/ As on	2021	2022
	Audited	Audited
Total Operating Income	533.63	622.73
EBITDA	66.17	-18.46
PAT	6.26	-76.07
Total Debt	136.18	114.67
Tangible Net Worth	217.66	165.70
EBITDA Margin (%)	12.40	-2.96
PAT Margin (%)	1.17	-12.19
Overall Gearing Ratio (x)	0.63	0.69

* Classification as per Infomerics` standards

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (Sep 10, 2021)	Date(s) & Rating(s) assigned in 2020-21 (May 21, 2020)	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	30.00	IVR BB+; Stable	IVR BB+; Stable	IVR BB (INC)	IVR BB+; Stable
2.	Term Loan	Long Term	82.45	IVR BB+; Stable	IVR BB+; Stable	IVR BB (INC)	IVR BB+; Stable
3.	Letter of Credit	Short Term	154.00	IVR A4+	IVR A4+	IVR A4 (INC)	IVR A4+

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	30.00	IVR BB+; Stable
Term Loan	-	-	June 2027	82.45	IVR BB+; Stable
Letter of Credit	-	-	-	154.00	IVR A4+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-Indian-Acrylics-nov22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.