

Press Release

Indian Acrylics Limited

10 September 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action
1.	Long Term Bank Facilities- Term Loan	123.11	IVR BB+/ Stable	IVR BB & Issuer not Cooperating	Revised
2.	Long Term Bank Facilities- Cash Credit	30.00	IVR BB+/ Stable	IVR BB & Issuer not Cooperating	Revised
3.	Short Term Bank Facilities- LC/ Bank Guarantee	159.00	IVR A4+	IVR A4 & Issuer not Cooperating	Revised
	Total	312.11			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of **Indian Acrylics Limited** have been revised due to availability of information. The company derives comfort from extensive experience of the promoters, leading market position with established relationship with clientele and a comfortable capital structure. These factors are offset by susceptibility to intense competition in the industry, fluctuations in the input prices and capital-intensive nature of operations.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained growth in operating income and profitability and improvement in working capital management leading to improvement in liquidity
- Sustenance of the capital structure and improvement in debt protection metrics marked by sustenance of TOL/TNW below 3x and interest coverage ratio at over 2x
- Timely completion of on-going capex

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Downward Factors

- Moderation in operating income and/or profitability impacting the debt protection metrics and cash accruals
- Any stretch in working capital cycle driven by pile-up of inventory or stretched receivables or sizeable unplanned capital expenditure affecting the financial risk profile, particularly liquidity.
- Deterioration in overall gearing to over 1.8x and interest coverage to below 1.5x

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 has 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 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.

- **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.

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

The manufacturing facilities of IAPL 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.

- **Comfortable capital structure**

The capital structure of the company remained comfortable over the past fiscals. The overall gearing remained comfortable at 1.41x as on March 31, 2021, improved from 1.70x as on March 31, 2018, backed by improvement in its net worth. The adjusted net worth stood healthy at of Rs. 217.66 crore as on March 31, 2021, as against Rs.206.77 crore in the previous year. To arrive at the net worth, Infomerics has considered Rs. 70.59 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 1.64x as on March 31, 2021 (TOL/TNW at 2.42x) 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 1.91x and 4.32x respectively in FY21. Going forward, Infomerics expects the capital structure to remain comfortable with improvement in debt protection metrics.

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,

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the company faces risk from its substitutes such as polyester, cotton and increasing imports 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 natural operational hedge (~55% imports as a percentage of sales against ~32% exports in FY21) 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 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 89% for the past 12 months ended June 2021.

Analytical Approach: Standalone

Applicable Criteria:

Financial Ratios & Interpretation (Non-Financial Sector)

Rating Methodology for Manufacturing Companies

Guidelines on what constitutes Non-Cooperation by clients

Liquidity – Adequate

The Company's bank limits remained moderately utilized for the 12 months ended June 2021. Further, the Company is expected to generate sufficient accruals in the range of Rs. 50 crore

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to Rs. 65 crore going forward as against its repayment obligations in the range of Rs. 15 crore to Rs. 25 crores. Liquidity is further supported by financial support from promoters in the form of interest free unsecured loans.

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 55,268 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 (Standalone):

	(Rs. crore)	
For the year ended*	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	749.31	533.63
EBITDA	71.50	66.17
PAT	10.72	6.26
Total Debt	137.33	136.18
Adjusted Tangible Net worth	206.07	217.66
EBITDA Margin (%)	9.54	12.40
PAT Margin (%)	1.43	1.17
Overall Gearing Ratio (x)	1.46	1.41

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

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Rating History for last three years:

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)				Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating (September 10, 2021)	Rating (May 21, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20 (Feb 27 2020)	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	30.00	IVR BB+/Stable	IVR BB and Issuer Not Cooperating	-	IVR BB+/Stable	-
2	Term Loan	Long Term	123.11	IVR BB+/Stable	IVR BB and Issuer Not Cooperating	-	IVR BB+/Stable	-
3.	LC/ BG	Short Term	159.00	IVR A4+	IVR A4(INC)	-	IVR A4+	-

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

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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

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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- Cash Credit (CC)	-	-	-	30.00	IVR BB+/ Stable
Long Term Bank Facilities – Term Loan	-	-	-	123.11	IVR BB+/ Stable
Short Term Non-Fund- LC/ Bank Guarantee	-	-	-	159.00	IVR A4+

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Indian-Acrylics-lenders-10sept21.pdf>