# Agarwal Industrial Corporation Limited

**August 24, 2020**

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-Term Bank Facilities | 96.50 | CARE BBB; Stable (Triple B; Outlook: Stable) | **Reaffirmed** |
| Long-Term/ Short-Term Bank Facilities | 3.50 | CARE BBB; Stable / CARE A3 (Triple B; Outlook: Stable/ A Three) | **Reaffirmed** |
| **Total** | **100.00 (Rs. One hundred crore only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

*The ratings assigned to the bank facilities of Agarwal Industrial Corporation Limited (AICL) continue to derives comfort from experience of its promoters in bitumen business, strong and established relationship with clientele garnering incremental business and its diversification in shipping and logistic business aiding its core business activity. Rating also factors in the sales volume backed growth witnessed in its Total Operating Income (TOI) for FY20 coupled with healthy coverage indicators.*

*The above strengths, however, are partially tempered by declining trend witnessed in its PBILDT margin during last three years. The decline in PBILDT margin was on account of change in product mix and higher discount offered to boost the income. The operating profit margin continue to remain susceptible to foreign exchange fluctuation and commodity price fluctuation risk as AICL does not have any formal hedging policy. The rating also takes into consideration that sizable quantum of receivables that are over six months, albeit same are from parties with long standing relationship.*

**Rating Sensitivities**

**Positive Sensitivities:**

- Increase in the total operating income above Rs. 800 crores on sustained basis.
- Improvement in PBILDT margin beyond 7% on sustained basis
- Interest coverage (PBILDT interest cover) above 6.00x on sustained basis.

**Negative Sensitivities:**

- Deterioration in PBILDT margins below 5.50% on sustained basis
- Interest coverage (PBILDT Interest cover) reducing below 4.0x times on sustained basis.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Long standing experience of promoters in bitumen business***

AICL was established in the year 1995 jointly by its promoters – Mr. Jaiprakash Agarwal, Mr. Lalit Agarwal, Mr. Ramchandra Agarwal and Mr. Mahendra Agarwal. The promoters of the company have around three decades of experience in the manufacturing and trading bitumen in domestic market. Transportation is one of the key aspect of bitumen distribution, thus, AICL is also into the transportation business, so as to be the integrated solution provider for its customers. Further, the promoters are supported by middle and lower level of management in their day-to-day operations.

***Long standing relationship with customers both in bitumen and transportation segment***

Established and long-standing relationship with its clientele in infrastructure, industrial and transportation segment has helped AICL garner repeat orders from existing clientele and acquire new clientele in the aforesaid mentioned segments. The client base of the company has remained diversified with top customers contributing around 35% and 38% to the overall revenue of the company in FY20 and FY19 respectively. Furthermore, AICL undertakes transportation activity mainly through its own fleets catering to reputed corporates like Bharat Petroleum Corporation Limited, Hindustan Petroleum Corporation Limited, Indian Oil Corporation Limited, etc., majority of its fleet is on contract with reputed companies.

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[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

***Benefits being derived from diversifying in Shipping and chartering business***
Large part (around 88%) of income for AICL is generated from petrochemical particularly bitumen and bituminous products. AICL has varied offering into bitumen segment, starting from commodity grade to relatively value added products which finds application in various industrial segments. Apart from petrochemical it has presence in transportation of LPG, power generation through wind mill and ship operating and chartering business.
Under transportation segment, AICL owns a fleet size of 329 vehicles, wherein it undertakes transportation of LPG and bituminous product from the source location to the industrial user or to the bottling plants. LPG is mainly sourced from domestic refineries and via bulk imports. Apart from deploying its owned fleets, AICL also hires additional fleets on long-term contract depending on the contract terms. AICL has also forayed into generation of power through wind mills located at Rajasthan and Maharashtra sold to the state power distribution company. The ship operating and chartering business though not contributed majorly in AICL's total operating income but had a substantial contribution of around 31% in its PBIT. The segment wise income breakup is as below:

| Segmental Income & Proportion (%) | FY18 | | FY19 | | FY20 | |
|---|---|---|---|---|---|---|
| | Rs. Cr | % | Rs. Cr | % | Rs. Cr | % |
| Petrochemicals* | 355.11 | *86%* | 468.83 | *88%* | 699.59 | *89%* |
| Transportation | 58.15 | *14%* | 61.13 | *12%* | 52.37 | *7%* |
| Ship Operating & Chartering Business | - | - | - | - | 34.26 | *4%* |
| Wind Mill | 1.43 | *0%* | 1.64 | *0%* | 1.22 | *0%* |
| **Net Sales (Total)** | **414.69** | *100%* | **531.60** | *100%* | **787.44** | *100%* |

**includes Bitumen and allied products*

**Segment wise PBIT breakup:**

| Segment PBIT & PBIT (%) | FY18 | | FY19 | | FY20 | |
|---|---|---|---|---|---|---|
| | Rs. Cr | % | Rs. Cr | % | Rs. Cr | % |
| Petrochemicals* | 18.03 | 5.1% | 24.31 | 5.2% | 23.53 | 3.4% |
| Transportation | 3.55 | 6.1% | 3.74 | 6.1% | 1.76 | 3.4% |
| Ship Operating & Chartering Business | - | - | - | - | 10.65 | 31.1% |
| Wind Mill | 0.9 | 62.9% | 0.81 | 49.4% | 0.6 | 49.2% |

**includes Bitumen and allied products*

***Substantial growth in TOI for FY20, however PBILDT margin moderated***
During FY20, AICL reported substantial growth of ~48% in its Total Operating Income (TOI). The growth in TOI was largely driven by the corresponding sales volume growth of around 49% witnessed in petrochemical segment (Bitumen and bituminous products). The petrochemical segment witnessed the sales volume growth of 50% which also translated into similar income growth. The income under the transportation segment witnessed the moderation during FY20, however, same was negated by the incremental income generated under the shipping and charting business.
The price of bitumen is determined based on the prevailing prices in the international market and the prices revision occurs fortnightly.
Although, the PBILDT margin witnessed the moderation in FY20 owing to change in product mix and discounts offered for boosting the TOI, the PAT margin improved marginally on back of lower interest outgo, stable depreciation charge and substantial profit booked in the overseas subsidiary. AICL also reported the expansion in Gross Cash Accruals (GCA) to Rs. 34.51 crore (PY: Rs. 22.38 crore) in congruence to growth in its Total Operating Income.
***Moderate debt level in commensurate to the size of its operations***
The leverage indicator (TOL/TNW) elevated marginally to 0.89x as on Mar 31, 2020 as against 0.68x (PY). The increase in Tangible Networth (TNW) through accretion was lower as compared to increase in Total Outside Liabilities (TOL) owing to collective increase of debt and creditors. As on March 31, 2020, AICL's debt portfolio comprised mainly of short term borrowing (92%) and remaining as vehicle loans (8%) availed to finance its own fleet.
The Total Debt/Gross Cash Accruals improved to Rs. 2.66 times at the end of FY20 as compared to 3.42 times, mainly on account of increase in gross cash accrual as against marginal increase in total debt.
Furthermore, AICL has capex plans to the tune of Rs. 5.00 crore towards establishing storage facilities in the state of Assam, same is expected to be execute the same in next two-three year and would be funded through internal accruals.

**Key Rating Weakness**

***Elevated receivables level; sizable amount of receivable are more than 6 months***

The operations of the company are working capital intensive in nature as evident by high amount of funds blocked in debtors. AICL usually provides credit of about 60 – 90 days to its customers in bitumen and allied product division and transportation business. Hence, it is noteworthy that any delay in payment from government authorities towards their customers could lead to extended recovery cycle. Furthermore, AICL receives a credit period of a week against its purchases, which restricts the suppliers credit availability. The receivable above six months continues to remain relatively elevated and in range of 35-45% for last 4 years. The working capital intensity ratio though improved as on March 31, 2020 but had been high historically as reflected in its net current asset to total capital employed of 58.08% (PY: 72.71%). The improvement was due to increase in the trade payables during March 31, 2020 which was due to delay in paying the supplier on back of Covid-19 lockdown announced by the GOI in March 2020.

***Exposure to forex risk and susceptibility to volatility in raw material prices***

Majority of the procurement done by AICL are import based from Dubai. The company do not undergo any hedging strategies to mitigate its forex risk. Majority of the sales are order backed while certain inventories are maintained in order to cater to urgent demand from its customers. Further, given the fact that revision in the prices of bitumen by the refineries in India are done after 10-15 days of international price movement, the inventory of around 15-20 days is maintained. Although, AICL has not booked any foreign exchange loss during last three financial years, CARE believes that non-existence of formal currency and commodity hedging policy is considered as one of the key risks for entities engaged in trading nature of business activities.

As per management, the products are imported based upon the certain level of demand in domestic market, and AICL generates margin out of price arbitrage in domestic market against the landed price post bulk discounts.

***Prospects dependent on infrastructure activity and competition from existing players***

The infrastructure industry, mainly road sector, are major consumers of the bitumen and related products in the industry. The growth in bitumen industry is mainly dependent on infrastructure activity. Increasing infrastructure activity, particularly in road sector, had led to higher demand of bitumen products in recent years. The growth witnessed in sales volume of AICL is also attributable to the increasing infrastructure activity supported by governments' focus on building roads and infrastructure.

Further, the company faces intense competition from existing players in the industry. The bitumen industry has many small and mid-size players.

***Covid-19 Update***

AICL's end user for its traded and manufactured bitumen and allied products are into infrastructure segment catering to government infrastructure development activities in construction of roads, highways, etc. The impact of CoVID -19 was not evident during Q4FY20 as AICL reported robust financial performance for Q4. CARE expects H1FY21 performance is expected to be hampered by nationwide lockdown witnessed during Q1FY21 and Q2 being weaker owing to monsoons impairing execution of infrastructure projects and in-turn impacts the sales of bitumen. Despite of disruption in operations owing to CoVID -19, AICL has not availed any moratorium from the bank towards the interest on working capital limits availed indicating the adequate liquidity cushion availability.

**Liquidity- Adequate**

AICL has adequate liquidity driven the expected cash accruals of 20 – 35 crore per annum for FY21 and FY22. AICL also has some cushion with its working capital limits being utilized at ~88% (average for last 12 months ended July 2020). Against this, AICL has long term debt repayment to the extent of Rs.4.56 crore for FY21. The liquidity is further supported by healthy unencumbered cash and bank balances of over Rs 8.38 crore reported as on March 31, 2020, which are expected to remain in business over the medium term. CARE expects internal accruals, cash & cash equivalents and unutilized bank lines to be sufficient to meet its repayment obligations as well as incremental working capital requirements.

**Analytical approach:** Consolidated.

CARE has taken a consolidated approach in analysing the financials of AICL along with its wholly owned subsidiaries namely Bituminex Cochin Private Limited and AICL Overseas FZ-LLC. CARE has taken consolidated approach owing to high degree of financial, managerial and business linkages between the entities.

| Name of Entity | Extent of consolidation | Rationale for consolidation |
|---|---|---|
| Bituminex Cochin Private Limited | 100% | Common management, business strategies and same promoters. The shareholding entirely rest in the hands of AICL. |
| AICL Overseas FZ-LLC | 100% | |

**Applicable criteria**
Criteria on Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
Rating Methodology – Manufacturing Companies
Financial ratios – Non-Financial Sector
CARE's Policy on Curing Period
Consolidation and Factoring Linkages in Ratings
Rating Methodology- Wholesale Trading

**About the company**
Incorporated in the year 1995, Agarwal Industrial Corporation Limited is engated in the business of manufacturing and trading of bitumen and bituminous products and transportation of specialized bulk bitumen and LPG (Liquefied Petroleum Gas). AICL is also involved in generation of power through wind mills situated in Jaisalmer (Rajasthan) and Dhulia (Maharashtra). The company has a wholly-owned subsidiary company known as Bituminex Cochin Private Limited which is also involved in manufacturing and trading of bituminous products and AICL Overseas FZ-LLC which is engaged in ship operating and chartering business.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/ facilities is given in Annexure-3

| Brief Financials (Rs. Crore) | FY19 (A) | FY20 (A)* |
|---|---|---|
| Total operating income | 531.89 | 789.10 |
| PBILDT | 37.61 | 48.91 |
| PAT | 13.45 | 25.55 |
| Overall gearing (times) | 0.58 | 0.59 |
| Interest coverage (times) | 4.03 | 5.52 |

A: Audited; * Published audited abridged financials

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | - | - | - | 96.50 | CARE BBB; Stable |
| Non-fund-based - LT/ ST- BG/LC (proposed) | - | - | - | 3.50 | CARE BBB; Stable / CARE A3 |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Fund-based - LT-Cash Credit | LT | 96.50 | CARE BBB; Stable | - | CARE BBB; Stable (11 June 2019) | - | - |
| 2. | Non-fund-based - LT/ ST- BG/LC (proposed) | LT/ST | 3.50 | CARE BBB; Stable / CARE A3 | - | CARE BBB; Stable / CARE A3 (11 June 2019) | - | - |

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not Available

***Annexure-4: Complexity of various instrument rated for this company***

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Fund-based - LT-Cash Credit | Simple |
| 2. | Non-fund-based - LT/ ST- BG/LC (proposed) | Simple |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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**About CARE Ratings:**
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