

Angel Fibers Limited
January 07, 2019

Ratings

Facility	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	72.11 (Reduced from 74.12)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)
Short-term Bank Facilities	3.50	CARE A4+ (A Four Plus)	Revised from CARE A4 (A Four)
Total Facilities	75.61 (Rupees Seventy Five crore and Sixty One lakh Only)		

Details of instruments/facilities in Annexure -1

Detailed rationale

The revision in the ratings assigned to the bank facilities of Angel Fibers Limited (AFL) is on account of gradual increase in its scale of operation with improvement in profitability and satisfactory liquidity position during FY18 (Audited, refers to period April 01 to March 31). Further, the ratings also factor in experience of the promoters, location advantage and availability of fiscal benefits from the government, apart from successful completion of its debt funded expansion project during H1FY19.

However, the ratings continue to remain constrained on account of AFL's presence in highly fragmented cotton yarn industry, susceptibility of profit margins to cotton price fluctuations and supply of cotton being regulated by the government.

The ability of AFL to further increase its scale of operations along with further improvement in the overall financial risk profile marked by an improvement in profit margins, solvency position and debt coverage indicators; along with efficient working capital management are the key rating sensitivities.

Detailed description of key rating drivers**Key Rating Weaknesses****Susceptibility of profit margins to cotton price fluctuations and supply for cotton are regulated by the government**

Profit margins of AFL remain susceptible to changes in its primary raw material i.e. ginned cotton. The cotton prices in India are highly regulated by the government through MSP (Minimum Support Price) hence any adverse change in government policy may also impact the prices of raw cotton and profitability of the players operating in the cotton textile value chain.

Presence in highly fragmented cotton spinning industry

High proportion of small scale units operating in the cotton value chain has resulted in the fragmented nature of the industry as well as intense competition within the players.

Key Rating Strengths**Successful completion of debt funded capex**

AFL has completed a project by setting up a new plant for spinning unit which is known as 'Ring Frame' for the better quality of products having total cost of Rs.64.29 crore and commenced operation from the plant from August 2018 onwards. The project has been completed within time and cost parameters. Upon completion of the project, the installed capacity of the company has enhanced by 16 MT per day and it has increased to 29 MT per day. Since, the project was largely debt funded; the overall gearing has deteriorated to 2.88 times as on September 30, 2018 as compared to 1.61 times as on March 31, 2018. Further, the total debt by gross cash accruals has also increased to 7.50 times as on September 30, 2018.

Gradual increase in scale of operations with improvement in profitability

During FY18, AFL has registered growth of 5.81% in its Total Operating Income (TOI) and stood at Rs.86.35 crore as against Rs.81.61 crore during FY17. Further, the TOI has increased to Rs.61.46 crore during H1FY19 (Provisional), reflects growth of 42% (on annualised basis) over FY18. Furthermore, profit margins of AFL have improved during FY18 marked by PBILDT and PAT margin of 17.47% and 5.04% respectively as against 16.75% and 0.73% respectively during FY17. The PBILDT and PAT margins have remained comfortable at 14.07% and 2.80% respectively during H1FY19.

On account of improvement in PBILDT and GCA level, the interest coverage ratio has remained comfortable 7.24x during FY18 as against 6.77x during FY17. Furthermore, interest coverage has remained 3.72x during H1FY19.

Satisfactory liquidity position

As on March 31, 2018, liquidity position remained satisfactory marked by current ratio of 1.57x as against 1.48x as on March 31, 2017. Operating cycle remained marginally elongated at 94 days during FY18 as against 78 days during FY17. Cash flow from operating activity (CFO) remained at Rs. 6.28 crore in FY18. Cash and bank balance stood at Rs. 0.44 crore

as on March 31, 2018. Further, the average utilization of working capital limits remained almost full during the past 12 months ended November, 2018 on back of growing scale of operations.

Experienced promoters coupled with presence in cotton growing region of Gujarat

Promoters of AFL hold more than a decade of experience into similar line of operations. Also the key promoter Mr. Ashok Dudhagara has received the award from government of India (GoI) under Make in India Campaign launched by GoI. Furthermore, the manufacturing facilities of AFL are located at Haripar, near Rajkot in Gujarat. AFL's presence in the cotton producing region results in benefit derived from a lower logistic expenditure (both on transportation and storage), easy availability and procurement of raw materials at effective prices.

Availability of fiscal benefits from the government

AFL is entitled to get various subsidies under the Revised Technology Up-gradation Fund Scheme (RTUFS). These benefits include capital subsidy, interest subsidy, power tariff subsidy, refund of VAT on SGST paid by the unit on purchases of intermediate product/raw material and remission of tax collected on end product/intermediate product made up to the extent of 100% the eligible fixed capital investments in plant and machinery made within one year (two years in case of investment more than 500 crore) from the date of production.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology for Cotton Yarn Industry](#)

About the company

Rajkot-based (Gujarat), Angel Fibers Limited (AFL) was established as a private limited company in February, 2014 and started commercial operations from June, 2015 by Mr. Ashok Dudhagara, Mr. Kantilal Savalia, Mr. Parsotam Dudhagara, Mr. Bakulesh Jani and Mr. Jaydeep Dobariya. In December 2017, the company converted its constitution from private limited company to public limited company. Currently, the company is managed by Mr. Ashok Dudhagara, Mrs. Prafulaben Dudhagara and Mr. Ankur Jani. AFL manufactures carded, combed and compact cotton yarn of finer quality ranging between 20s to 50s counts and operates from its sole manufacturing facility located at Haripar, Rajkot, Gujarat. During August 2018 AFL has completed a capex project and enhanced its installed capacity from 13 MT per day to 29 MT per day of cotton yarns.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	81.61	86.35
PBILDT	13.67	15.09
PAT	0.60	4.35
Overall gearing (times)	2.00	1.61
Interest coverage (times)	6.77	7.24

A: Audited

During H1FY19 (Provisional), AFL reported TOI of Rs.61.46 crore with PBILDT and PAT of Rs. 8.65 crore and Rs.1.72 crore respectively.

Status of non-cooperation with previous CRA: CRISIL has migrated its rating to issuer non-cooperation category vide press release dated January 30, 2018 on account of its inability to carry out a rating surveillance in the absence of the requisite information from the AFL.

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-Term Loan	-	-	March, 2026	60.11	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	12.00	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	3.50	CARE A4+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	60.11	CARE BB+; Stable	1)CARE BB-; Stable (20-Jul-18)	1)CARE BB-; Stable (21-Dec-17)	1)CARE B+; Stable (29-Mar-17) 2)CARE B+; Stable (14-Mar-17)	-
2.	Fund-based - LT-Cash Credit	LT	12.00	CARE BB+; Stable	1)CARE BB-; Stable (20-Jul-18)	1)CARE BB-; Stable (21-Dec-17)	1)CARE B+; Stable (29-Mar-17)	-
3.	Non-fund-based - ST-Bank Guarantees	ST	3.50	CARE A4+	1)CARE A4 (20-Jul-18)	1)CARE A4 (21-Dec-17)	1)CARE A4 (29-Mar-17)	-

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