Angel Fibers Limited

November 25, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	59.85 (Reduced from 65.64)	**CARE B; Stable (Single B; Outlook: Stable)**	**Revised from CARE D (Single D); Stable outlook assigned**
Short Term Bank Facilities	2.50	**CARE A4 (A Four)**	**Revised from CARE D (Single D)**
Total Facilities	**62.35 (Rupees Sixty-Two Crore and Thirty-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Angel Fibers Limited (AFL) takes into account a change in the management of the company along with satisfactory delay free track record of debt servicing.

The ratings, however, continue to remain constrained due to moderate scale of operations along with losses reported in FY20 (Audited; FY; refers to period April 1 to March 31) and H1FY21 (UA), leveraged capital structure, weak debt coverage indicators and stretched liquidity. The ratings, further, constrained on account of susceptibility of its profitability to volatile raw material prices and its presence in highly fragmented and competitive industry which has been facing slowdown since past one year and the same has aggravated post outbreak of Covid-19.

The ratings, further, continue to derive strength from its experienced management team, favourable location of its manufacturing unit with proximity to cotton growing region and benefits available under State Government policies.

Key Rating Sensitivities

Positive Factors

- Volume driven increase in scale of operations with total operating income (TOI) beyond Rs.200 crore along with improvement in PBILDT margin over 12% on sustained basis
- Improvement of capital structure with an overall gearing ratio below 3.00 times

Negative Factors

- Decline in operating profitability margin to less than 8% on a sustained basis
- Elongation in gross working capital cycle above 90 days on a sustained basis

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate scale of operations along with weak profitability

The scale of operations of AFL grew to Rs.142.73 crore in FY19 from Rs.90.56 crore in FY18 in line with the increase in installed capacity from 4,680 metric ton per annum (MTPA) in FY18 to 8,040 MTPA in FY19.The scale of operations of the company remained largely stable with a total operating income (TOI) of Rs.150.47 crore on account of lower sales volumes on the back of subdued demand and increased competition. The average utilization of installed capacity remained at around 80-85% during the last three years ended FY20. Further, the profitability of the company remained weak on account of limited bargaining power with its customers owing to intense competition in the cotton spinning segment. The operating profitability (PBILDT) of the company declined by around 50% in FY20 mainly due to decline in average sales realization of cotton yarn without corresponding decline in raw material prices i.e. raw cotton which has resulted into lower spread during the year. The PBIDLT margin has remained at around 7% in FY20 as against 14% in FY19. Further, due to decline in its operating profits along with higher depreciation and interest cost, the company has reported net loss of Rs.14.64 crore and cash loss of Rs.1.72 crore in FY20.

Further, the company has reported the decline in the total operating income (TOI) of around 41% on y-o-y basis in H1FY21 as indicated by TOI of Rs.40.76 crore (H1FY20: Rs.69.30 crore) which is mainly due to disruptions caused in the operations of the company during Q1FY21 due to covid-19. However, during H1FY21, the company has reported operating profit of Rs.4.85 crore (H1FY20: Rs.2.64 crore) and net loss of Rs.3.81 crore (H1FY20: Rs. 6.20 crore).

Leveraged capital structure and weak debt coverage indicators

The capital structure of AFL remained leveraged marked by an overall gearing ratio of 5.47 times and TOL/ TNW ratio of 7.17 times as on March 31, 2020 due to its low neworth base. During FY20, the net worth of the company eroded significantly on account of net loss incurred during the year. Moreover, due to lower profitability and accruals, AFL's

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

reliance on external debt continues to remain high. The borrowings of the company comprises of term debt of Rs.51.57 crore, working capital borrowings of Rs.12.00 crore and unsecured loans from promoters and relatives of Rs.17.27 crore as on March 31, 2020. Further, the debt coverage indicators of the company deteriorated and continued to remain weak during FY20 marked with PBILDT interest coverage ratio of 1.11 times on account of lower profitability and increased interest cost during the year.

Susceptibility to volatile raw material prices and regulatory changes
AFL's profitability is susceptible to the movement in the prices of raw cotton which is the key raw material for production of cotton yarn. The prices of raw cotton are volatile in nature and depend upon factors such as area under production, yield, vagaries of monsoon, international demand supply scenario, inventory carry forward from the previous year and export quota along with minimum support price (MSP) decided by the government. Prices of raw cotton have been volatile over last couple of years, which translates into risk of inventory losses. Furthermore, the textile industry also witnesses regulatory risks such as change in domestic and international government policies related to subsidies or imports / exports tariffs, which also affects the industry players across the value chain.

Presence in highly fragmented and competitive industry with limited product differentiation
The yarn manufacturing industry in India is highly fragmented and dominated by a large number of small scale units leading to high competition in the industry. Smaller standalone units are more vulnerable to intense competition and have limited pricing flexibility, which constrains their profitability as compared with larger integrated textile companies who have better efficiencies and pricing power considering their scale of operations. Due to the fragmented nature of the industry, the ability to pass on the increase in raw material prices to the end customers is limited and is usually accompanied by a time lag.

Challenging scenario for textile industry due to Covid-19 pandemic
The closure of retail stores and malls on account of lockdown situation across the nation will affect textile industry's sales. On the international front, spread of Covid-19 in top export destinations such as Europe and US (together accounting for about 60% of the total apparel exports) has resulted in closure of retail stores and malls there. Even after the lockdown is lifted, gradual and delayed recovery is likely in consumer demand given the relatively discretionary nature of the apparel products in the backdrop of likely economic slowdown. There may be a cascading impact on demand of other textile products including cotton yarn and fabric. The strength of the recovery will be contingent on the duration and extent of the Covid-19 pandemic, where a prolonged downturn in apparel demand will constrain revenues and earnings of the sector. Going ahead, improvement in cotton yarn production can be expected on sequential basis backed by various unlock guidelines in the domestic market coupled with export of cotton yarn which has witnessed strong growth on y-o-y basis during June'20-Aug'20.
Manufacturing operations of AFL commenced fully from mid of June, 2020 post discontinuation of operations from March 23, 2020 owing to a nationwide lockdown announced in last week of March 2020 by the Central Government as a measure to check the spread of Covid-19 pandemic. The company has reported a total operating income (TOI) of Rs.38.43 crore during H1FY21 and the management of the company expects that the revenue of the company to ramp up in H2FY21.

Liquidity: Stretched
The liquidity of AFL is sstretched due to losses reported during the year and very high reliance on external borrowings. The company funds its working capital requirement through bank borrowings and the average utilization of its working capital limits remained at around 80% in past 12 months ended September 2020. Further, the current ratio of the company remained below unity at 0.96 times as on March 31, 2020. However, the liquidity of the company was supported by healthy cash flow from operation of Rs.30.32 crore in FY20 and Rs.13.11 crore in H1FY21. The company had availed the moratorium granted as a Covid relief measure, as permitted by the Reserve Bank of India, for the period of March-August 2020 on its interest and principal repayment obligation.

Key Ratings Strengths
Change in management and satisfactory delay free track record of debt servicing
During H1FY21, Mr. Ramesh Ranipa and Mr. Jitendra Raiyani acquired equity stake of 56.47% held by Mr. Ashok Dudhagara and Mrs. Prafulaben Dudhagara, the erstwhile promoters of the company. Further, the new promoters through open offer, has also acquired 17.44% equity stake in the company from public. Subsequent to the change in promoter group, the shareholding of promoters has also increased to 73.91% as on March 31, 2020 as against 56.47% as on March 31, 2020.
Subsequent to the change in management, the company has regularized its cash credit (CC) account and term loan account with State Bank of India (SBI) in May 2020. Further, the company has availed the moratorium from SBI for the period of March 2020 to August 2020 and repaid the term debt instalments on due dates in September 2020 and October 2020. While the accounts held with SBI was regularised in May 2020, the company has regularized its cash credit account

and term loan account with Axis Bank on July 31, 2020. Further, the company has availed the moratorium from Axis Bank for the period of March 2020 to May 2020. Furthermore, the company has repaid the term debt instalments on due dates during August 2020 to October 2020.

Experienced management team

Mr. Ramesh J. Ranipa is a Whole-time-director cum Chairman of the company, possess vast experience in textile industry and holds directorship in three other entities i.e. Sanvi Spinning Mill Private Limited (rated: CARE BB+; Stable/ CARE A4+), Redstone Granito Private Limited (Withdrawn; earlier rated: CARE BB+; Stable/ CARE A4+) and Redeco Fibers Private Limited. Further, Mr. Rohan J. Raiyani (Son-in-law of Mr. Ramesh Ranipa), the Managing Director of the company who has completed his Master in Business Management from Toronto, Canada, looks after the day to day operations of the company along with Mr. Pankaj Bhimani, the whole time director of the company. Mr. Bhimani has an experience of around two decades in sales and marketing operations. The management of the company also consists of Mr. Jitendra Raiyani (Father of Mr. Rohan Raiyani), who is also associated as a director in two other entities i.e. Redren Energy Private Limited and Raison Bio-Tech Private Limited since last 15 years, Ms. Jyoti Katariya, Chartered Accountant having 14 years of experience, Mr. Meraman Bhatu and Mr. Hitesh Chaniyara.

Favourable location of its manufacturing unit with proximity to cotton growing region

The manufacturing facilities of AFL are located at Haripar, Jamnagar which falls in the Saurashtra region of Gujarat which produces majority of Gujarat’s total cotton production. The said cotton growing belt of Gujarat houses more than 600 cotton ginning mills and around 125 spinning mills. Hence, AFL’s presence in cotton producing region has benefitted it in terms of easy availability of raw materials, labor and lower logistic costs.

Benefits available under State Government policies

AFL’s manufacturing facility is eligible for various incentives by the Government of Gujarat. As per the Gujarat Textile Policy - 2012, AFL is entitled to benefits like (1) 7% interest subsidy for a period of 5 years (from June 2018 to June 2023) (2) Power tariff subsidy @ Rs.1 per unit in the billed amount of the utility for a period of 5 years (from August 2018 to August 2023) (3) Reimbursement of State Goods and Service Tax (SGST) to the extent of 100% of the eligible fixed capital investments in plant and machinery for a period of 8 years (from August 2018 to August 2026). AFL is regularly receiving the subsidies from the government which enhance its cash flow.

Analytical approach: Standalone

Applicable criteria:

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE’s Policy on Default Recognition
Criteria for Short Term Instruments
Policy on Curing period
Rating Methodology – Cotton Textile
CARE’s methodology for manufacturing companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Angel Fibers Limited (AFL) was initially incorporated as a private limited company in February 2014. Later in December 2017, the constitution of the company changed from private limited to public limited. AFL is engaged into manufacturing of carded, combed and compact cotton yarn of finer quality ranging between 20 to 50 counts since June 2015. The manufacturing facilities of AFL are located at Haripar, Jamnagar (Gujarat) with an installed capacity of 39,648 spindles. AFL is currently listed on the SME platform of BSE with promoters holding of 73.91% as on September 30, 2020.

(Rs. crore)

Brief Financials of AFL	FY19 (Audited)	FY20 (Audited)
Total operating income	142.73	150.47
PBILDT	20.54	10.40
PAT	0.54	-14.64
Overall gearing (times)	3.33	5.47
PBILDT Interest coverage (times)	2.71	1.11

As per the un-audited result for H1FY21, the company has reported a total operating income of Rs.40.76 crore and net loss of Rs.3.81 crore as against total operating income of Rs.69.30 crore and net loss of Rs.6.20 crore in H1FY20.

Status of non-cooperation with previous CRA: CRISIL kept the ratings on AFL under Issuer not cooperating category vide its PR dated November 20, 2019 based on best available information.

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-Term Loan	NA	NA	November 2026	47.85	CARE B; Stable
Fund-based - LT-Cash Credit	NA	NA	NA	12.00	CARE B; Stable
Non-fund-based - ST-Bank Guarantees	NA	NA	NA	2.50	CARE A4

NA: Not Applicable

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-Term Loan	LT	47.85	CARE B; Stable	-	1)CARE D (12-Feb-20) 2)CARE D (18-Nov-19)	1)CARE BB+; Stable (07-Jan-19) 2)CARE BB-; Stable (20-Jul-18)	1)CARE BB-; Stable (21-Dec-17)
2.	Fund-based - LT-Cash Credit	LT	12.00	CARE B; Stable	-	1)CARE D (12-Feb-20) 2)CARE D (18-Nov-19)	1)CARE BB+; Stable (07-Jan-19) 2)CARE BB-; Stable (20-Jul-18)	1)CARE BB-; Stable (21-Dec-17)
3.	Non-fund-based - ST-Bank Guarantees	ST	2.50	CARE A4	-	1)CARE D (12-Feb-20) 2)CARE D (18-Nov-19)	1)CARE A4+ (07-Jan-19) 2)CARE A4 (20-Jul-18)	1)CARE A4 (21-Dec-17)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-Bank Guarantees	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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