Angel Fibers Private Limited

December 21, 2017

Ratings

Facility	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	37.82 (Reduced from 48.10)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Revised from CARE B+; Stable (Single B Plus; Outlook: Stable)
Short-term Bank Facilities	1.50	CARE A4 (A Four)	Reaffirmed
Total	**39.32 (Rupees Thirty Nine crore and Thirty two lakh only)**		

Details of instruments/facilities in Annexure -1

Detailed rationale

The revision in the long term rating assigned to the bank facilities of Angel Fibers Private Limited (AFPL) take into account significant growth reported by AFPL in its total operating income (TOI) coupled with improved profit margins, improved capital structure and debt coverage indicators in FY17 (FY refers to the period from April 01, 2016 to March 31, 2017). Further, the ratings continue to draw strength from experienced promoters, presence in cotton producing belt of Gujarat along with availability of fiscal benefits from the government.

The ratings, however, continue to remain constrained on account of its moderate liquidity position, presence in highly fragmented cotton yarn industry, susceptibility of profit margins to cotton price fluctuations and supply for cotton being regulated by the government. The ratings further takes into consideration implementation and stabilization risk associated with on-going project.

AFPL's ability to successfully complete its debt funded capex within timeline and consequently increase its scale of operations and profit margins will be the key rating sensitivities. In addition to this, further improvement in capital structure, debt coverage indicators and better working capital management would also remain crucial.

Detailed description of key rating drivers

Key Rating Strengths

Significant growth in total operating income (TOI) coupled with improved profit margins in FY17

During FY17, AFPL has registered significant growth of 73.93% in its TOI which stood at Rs.88.74 crore as compared to Rs.51.02 crore reported in FY16. FY17 was the first full year of operations during which AFPL also added new customers in its portfolio which has led to significant growth. Consequently, profit margins have also improved during the year marked by PBILDT Margin which has improved by 64 bps over the previous year and stood comfortable at 19.73% during FY17 while the company has reported net profit (PAT Margin: 0.68%) during FY17 as compared to net loss during FY16.

Improved Capital Structure and debt coverage indicators

On the back of increase in the net worth base coupled with decline in debt level, capital structure has improved marked by overall gearing ratio of 2.00x as on March 31, 2017 as compared to 2.31x as on March 31, 2016. Furthermore, total debt to GCA ratio has also improved to 4.34x as on March 31,2017 as against 8.71x as on March 31, 2017 owing to increase in GCA level coupled with decline in debt level as on balance sheet date. Interest coverage ratio of AFPL has also improved and stood moderate at 3.00x during FY17 as against 2.23x during FY16 mainly on account of increase in the PBILDT level.

Experienced promoters coupled with presence in cotton growing region of Gujarat

Promoters of AFPL hold more than a decade of experience into similar line of operations. Furthermore, the manufacturing facilities of AFPL are located at Haripar, near Rajkot in Gujarat. AFPL'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

AFPL 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 ups 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.

Key Rating Weaknesses

Implementation and stabilization risk associated with on-going debt funded project

AFPL is currently undertaking a project to setup a new plant for spinning unit with total cost of Rs.64.29 crore which is proposed to be funded through debt/equity mix of 15.07 times. AFPL has commenced project from November 2017 and no costs have been incurred till December 14, 2017 towards the project. AFPL expects to start commercial production from August 2018 onwards. With majority of costs yet to incur and financial closure of the project yet to be achieved, AFPL is exposed to project implementation and stabilization risk.

Moderate liquidity position

The liquidity position of AFPL stood moderate marked by current ratio of 1.48 as on March 31, 2017 which was remained almost in line as compared to previous year. Further, operating cycle has elongated and stood at 76 days during FY17 as against 44 days during FY16. Overall, the average utilization of working capital limits remained full during the past 12 months ended November, 2017.

Presence in highly fragmented cotton spinning industry coupled with susceptibility of profit margins to cotton price fluctuations and supply for cotton are regulated by the government

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. Further, profit margins of AFPL remain susceptible to changes in its primary raw material i.e. raw 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.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
CARE's methodology for Cotton yarn Industry
Criteria for Short Term Instruments

About the Company

Rajkot-based (Gujarat), Angel Fibers Private Limited (AFPL) is a private limited company incorporated in February, 2014 by Mr. Ashok Dudhagara, Mr. Kantilal Savalia, Mr. Parsotam Dudhagara, Mr. Bakulesh Jani and Mr. Jaydeep Dobariya. AFPL manufactures carded, combed and compact cotton yarn of finer quality ranging between 20s to 50s count and operates from its sole manufacturing facility located at Haripar, Rajkot- Gujarat. As on March 31, 2017, AFPL has total installed capacity of 13 tonnes per day of cotton yarn.

Brief Financials (Rs. crore)	FY16 (A)*	FY17 (A)
Total operating income	51.02	88.74
PBILDT	9.74	17.50
PAT	(1.05)	0.60
Overall gearing (times)	2.31	2.00
Interest coverage (times)	2.23	3.00

*A: Audited * Commenced operations from June 2015*

During 8MFY18 (Provisional), AFPL has achieved a total operating income of Rs.64 Crore.

Status of non-cooperation with previous CRA: Not Applicable

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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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, 2023	30.82	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	7.00	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	1.50	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	30.82	CARE BB-; Stable	-	1)CARE B+; Stable (29-Mar-17) 2)CARE B+; Stable (14-Mar-17)	-	-
2.	Fund-based - LT-Cash Credit	LT	7.00	CARE BB-; Stable	-	1)CARE B+; Stable (29-Mar-17)	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	1.50	CARE A4	-	1)CARE A4 (29-Mar-17)	-	-

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