



Rating Rationale

24 March 2020

Agson Global Private Limited

Brickwork Ratings downgrades the long term rating, with a negative outlook, and short term rating for the Bank Loan Facilities amounting to Rs. 1694 Crores of Agson Global Private Limited ('AGPL' or 'the Company').

Particulars

| Facility** | Amount (Rs. Crs) | | Tenure | Rating* | |
|--|--------------------------------|--------------------------------|---|------------------------|-------------------------------------|
| | Previous | Present | | Previous (Oct, 2019) | Present |
| Fund based Cash Credit Term Loans | 1315.00 20.51 | 1465.00 79.00 | Long Term | BWR A-/Negative | BWR BBB/Negative (Downgrade) |
| Non Fund Based LC | 80.00 | 150.00 | Short Term | BWR A2 | BWR A3 (Downgrade) |
| Total | 1415.51 | 1694.00 | INR One Thousand Six Hundred and Ninety Four Crores Only | | |

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

**Complete details of Bank facilities is provided in Annexure-I

RATING ACTION/OUTLOOK:

The downward revision in the ratings factors in the Company's continued moderation in its liquidity position, coupled with low growth in turnover, despite disbursement of the enhanced working capital limits by the consortium of lenders during 9MFY20. The lead bank also sanctioned and disbursed the LRD (lease rental discounting) loan of Rs. 79 Cr during 9MFY20, but the Company's liquidity position has continued to remain under pressure, resulting in its working capital limits remaining fully drawn as on date. High utilization in its working capital limits were mainly driven by high inventory position reported year-on-year. Owing to additional limits disbursed, the Company's other financial parameters such as gearing profile, interest and debt coverage indicators, and profitability margins deteriorated.

BWR notes that the Company has also proposed for additional working capital limits of Rs. 220 Cr, which is yet to be sanctioned by the consortium of lenders. BWR believes that its financial flexibility is



expected to remain limited owing to nil cushion available from its working capital limits coupled with low unencumbered cash and cash equivalent during 9MFY20.

However, the ratings derive comfort from the experienced promoters with the Company's established market position in the almond and menthol, both of which have witnessed capex; new automatic sortex machines installed for almond division and backward integration for menthol division, to improve its operational efficiencies in FY20 and FY21.

RATING OUTLOOK: Negative

The rating outlook continues to remain negative in view of the Company's high dependence on additional debt to meet its immediate liquidity needs. This may impact its gearing profile and other coverage indicators further over the medium term. BWR believes that there will be further downward pressure in its outstanding ratings, in case if the Company is unable to liquidate its high inventory position or raise funds for its immediate working capital needs.

KEY RATING DRIVERS

Credit Risks:

High utilization in its working capital limits: Despite disbursement of additional working capital limits of Rs. 295 Cr, average CC utilization remained high at 99.17% during 10-month ended Jan 2020. The lead bank also sanctioned and subsequently disbursed the LRD loan of Rs. 79 Cr during 9MFY20, but improvement in its liquidity position is yet to be seen. High utilization in its working capital limits was mainly driven by high inventory position reported year-on-year. Inventory turnover ratio (COGS/Average Inventory) of the Company stood low at 1.92x in FY19 and estimated to be 1.94x for FY20.

High financial risk profile: Due to increasing debt levels, gearing ratio of the Company deteriorated to 2.10x during 9MFY20. Over the period of three years (FY17-20), the total debt of the Company increased by Rs. 403.27 Cr, whereas Sales and TNW of the Company increased by only Rs. 471.97 Cr and Rs. 148 Cr, respectively for the same period.

Moderation in its profitability levels and interest coverage ratios: Net profit of the Company has declined due to an increase in finance costs from Rs. 106.50 Cr to Rs. 131.93 Cr during FY19. Finance costs of the Company have increased due to the stoppage of LOU's by RBI during FY19. However, the management has articulated that since the lenders had restarted the buyer's credit under LOUs, the interest cost is expected to come down over the medium term. Rise in inventory levels blocked additional working capital funds and this resulted in an increase in financial costs year-on-year.

Since, the majority of its turnover is reported from the low-value added almond division, interest coverage ratio remained below 2x over the past three years. Debt coverage indicators remain moderate but are expected to deteriorate over the next two financial years owing to a new LRD loan of Rs. 79 Cr were availed for its business purpose.

Credit Strengths:



Management strategies to improve its operational efficiencies: The Company had recently installed a fully automatic almond processing unit with shelling capacity of 100 MT/day. The Capex incurred is around Rs. 9 Cr from its internal accruals. In order to improve its bottom line, the Company now imports in-shell almonds and de-shelling is undertaken at this unit.

For its Menthol division, it had tied up with BASF, Germany for long term supply of Menthol Crystals. It has estimated export sales of Rs. 134.55 Cr in FY20 and Rs. 248.22 Cr in FY21. It also created a backward integration to manufacture DL Menthol (a basic raw material from m-cresol & thymol). Total capex of the said project is Rs. 15 Cr out of which Rs. 7.27 Cr already incurred in FY19. Company expects profitability margins to improve from this segment in FY20 and FY21.

Experienced promoters with established track record: AGPL is promoted by Mr. Apresh Garg, Managing Director, who is a first generation entrepreneur, having experience of over 16 years in this business. The Company had a market share of more than 20% (in terms of volume) in almond imports from USA during FY19, which demonstrates its ability to be one of the larger players in the almond trade.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has considered the standalone business and financial risk profile of the Company, as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

AGPL's liquidity position is highly towards the ability of the Company to liquidate its high inventory position and subsequently, raise funds to meet its immediate working capital needs over the medium term.

Positive: Improvement in the Company's liquidity position by reducing its high inventory position, increase in turnover levels despite market slowdown, improve its operational efficiencies through recent backward integration and capex incurred and ultimately, bring down its working capital limit utilization to some satisfactory levels.

Negative: The ratings may be downgraded if moderation in its liquidity position continues to persist.

LIQUIDITY POSITION:

The Company's liquidity position further moderated (despite disbursement of additional limits of Rs. 295 Cr and LRD loan of Rs. 79 Cr by its lenders), which resulted in near full utilization in its working capital limits. Its majority of funds are blocked in high inventory holding with low inventory ratio reported each year. Inventory turnover ratio (COGS/Average Inventory) of the Company stood low at 1.92x in FY19 and estimated to be 1.94x for FY20.

Its average CC utilization stood high at 99.17% during 10-month ended Jan 2020. Cash flow from operating activities remains negative owing to increasing inventory levels during FY19. The Company's



financial flexibility remains low, as reflected by lower cushion on undrawn working capital limits with low unencumbered cash & cash equivalents during 9MFY20.

However, the Company has proposed for working capital enhancement of Rs. 220 Cr (FB-150Cr and NFB - 70 Cr) in order to further meet its immediate liquidity requirements.

ABOUT THE COMPANY:

AGPL was initially incorporated as Shree Global Impex P. Ltd. in May 1997 by Mr. Apresh Garg. It was renamed as Agson Global Pvt Ltd (AGPL) in 2008. AGPL is engaged into three major business activities i.e. Almond Division, Menthol Division & Logistics Park. Almond is one of its major segments which contributes the majority of its total turnover. Menthol Division manufactures crystalline menthol, & its various derivatives. Logistics division is located at Kundli Industrial Area (Delhi – Chandigarh Highway), having a total construction area of 55627 sq. mtrs.

AGPL closed its garment division during FY19, as it has not been able to achieve a justified internal rate of return; generating low margins with low value addition. Currently, AGPL has adjusted the outstanding of the Garments Division with surrender/cancellation of all its sanctioned fund based limits.

KEY FINANCIAL INDICATORS:

| Particulars | FY18 (A) | FY19 (A) |
|------------------------------------|----------|----------|
| Total Operating Income (Rs. Crs) | 3294.81 | 3333.37 |
| EBITDA (Rs. Crs) | 192.22 | 213.00 |
| PAT (Rs. Crs) | 46.96 | 45.62 |
| Total Tangible Net worth (Rs. Crs) | 560.02 | 605.64 |
| Total Debt to Equity Ratio (times) | 2.11 | 1.96 |
| ISCR (times) | 1.80 | 1.61 |

Rating History for the last three years (including ratings suspended/withdrawn)

| Current Rating | | | | Rating History | | | | | | |
|--------------------|-----------|------------|------------------|----------------|------------|-----------------|-------------|------------|--------------|------|
| 24 Mar 2020 | | | | 04 Oct 19^ | | | 24 Dec 2018 | | | 2017 |
| Facilities | Type | Amt Rs. Cr | Rating | Facilities | Amt Rs. Cr | Rating | Facilities | Amt Rs. Cr | Rating | |
| FB | Long Term | 1544 | BWR BBB/Negative | FB | 1335.51 | BWR A-/Negative | FB | 1341.85 | BWR A/Stable | - |
| NFB | Short | 150 | BWR A3 | NFB | 80.00 | BWR A2 | NFB | 80.00 | BWR A2+ | |
| 03 Jan 2018 | | | | | | | | | | |

| Term | | 20 June 2019 | | | | | |
|------|--|--------------|------------|---|------------|------------|--------------|
| | | Facilities | Amt Rs. Cr | Rating | Facilities | Amt Rs. Cr | Rating |
| | | FB | 1341.85 | BWRA- (Rating Watch with Developing Implications) | FB | 1182.08 | BWR A/Stable |
| | | NFB | 80.00 | BWR A2(Rating Watch with Developing Implications) | NFB | 80.00 | BWR A2+ |

Status of non-cooperation with previous CRA (if applicable)- N.A.
Any other information: Nil

****Annexure I**

Details of Bank Facilities rated by BWR

| S No. | Name of the Bank | Type of Facility | Long Term (Rs. Cr) | Short Term (Rs. Cr) | Total (Rs. Cr) |
|-------|-----------------------|---|--------------------------------|----------------------|----------------|
| 1 | Indian Overseas Bank | Cash Credit Term Loan New LRD loan BG/LC | 480.00 closed 79.00 - | - - - 50.00 | 609.00 |
| 2 | Punjab National Bank | Cash Credit | 158.86 | - | 158.86 |
| 3 | Corporation Bank | Cash Credit | 110.04 | - | 110.04 |
| 4 | Central Bank of India | Cash Credit | 40.00 | - | 40.00 |
| 5 | Union Bank of India | Cash Credit | 80.00 | - | 80.00 |
| 6 | Vijaya Bank | Cash Credit | 27.00 | - | 27.00 |
| 7 | Bank of Baroda | Cash Credit | 35.00 | - | 35.00 |
| 8 | Canara Bank | Cash Credit BG/LC | 65.00 - | - 6.00 | 71.00 |

| | | | | | |
|--------------|---------------------|----------------------|----------------|---------------|----------------|
| 9 | Bank of India | Cash Credit | 76.50 | - | 76.50 |
| 10 | State Bank of India | Cash Credit | 50.00 | - | 50.00 |
| 11 | IDBI Bank | Cash Credit | 15.00 | - | 15.00 |
| 12 | UCO Bank | Cash Credit | 75.00 | - | 75.00 |
| 13 | United Bank | Cash Credit BG/LC | 83.00 - | - 10.00 | 93.00 |
| 14 | Indian Bank | Cash Credit | 19.60 | 14.00 | 33.60 |
| 15 | Proposed Limits | Cash Credit LC | 150.00 - | - 70.00 | 220.00 |
| Total | | | 1544.00 | 150.00 | 1694.00 |

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Infrastructure Sector](#)
- [Short Term Debt](#)

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