Rating Rationale

04 Oct 2019

Agson Global Private Limited

Brickwork Ratings reaffirms the ratings for the bank loan facilities aggregating Rs. 1415.51 Crores of Agson Global Private Limited ('AGPL' or 'the Company'), removes the ratings from Rating under Watch with Developing Implications and assigns Negative Outlook.

Particulars

Facility#	Amount (Rs. Crs)		Tenure	Rating *	
	Previous	Present		Previous (June, 2019)	Present
Fund Based Cash Credit Term Loans	**1315.00** **26.85**	**1315.00** **20.51**	**Long Term**	**BWR A-** (Pronounced as BWR Single A Minus) (Rating under watch with Developing Implications)	**BWR A -** (Pronounced as BWR Single A Minus) (Outlook Negative) (Reaffirmed)
Non Fund Based BG/LC	**80.00**	**80.00**	**Short Term**	**BWR A2** (Pronounced as BWR A Two) (Rating under watch with Developing Implications)	**BWR A2** (Pronounced as BWR A Two) (Reaffirmed)
Total	**1421.85**	**Rs. 1415.51 Crores (INR One Thousand Four Hundred & Fifteen Crores and Fifty One Lakhs Only)**			

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
#Facility-wise details of bank limits are available in Annexure I

RATING ACTION/RATING OUTLOOK

The revision in the outlook to negative factors in the company's continuing stress in its liquidity position, as instances of its cash credit accounts remaining overdrawn, after the application of monthly interest, continue to recur despite disbursement of additional working capital limits of over Rs. 250 Crs by a consortium of lenders, a situation which started with the stoppage of the facility of buyer's credit backed by the letters of comfort issued by the consortium. Further, the company is unable to bring down its inventory levels, which continue to remain high. During FY19, the inventory increased from Rs. 1528.30

Cr in FY18 to Rs. 1685.03 Cr due to imposition of additional duty on US imports and build up of stocks for the festive and winter season. This also resulted in inventory turnover ratio to remain low at 1.98x in FY19. However, the company has advised that its liquidity position is likely to improve as it has sought long-term LRD loan of ~ Rs. 79 Cr which will be utilized for the repayment of existing term loan of ~ Rs. 20 Cr and remaining for its working capital requirements. It also expects to liquidate excess inventory during the coming festival and winter season. Thus, AGPL expects to restrict its cash credit limit utilization to about 90% level by the end of FY20 in order to improve its liquidity profile. The other constraints such as low profitability margins, despite increasing turnover levels and moderation in its interest coverage ratio, remain unchanged.

The ratings have been removed from “Rating under Watch with Developing Implications”, given that approvals from the consortium of lenders for enhancement of its working capital limits by Rs. 295 Cr have been received, of which Rs. 250 Cr has already been disbursed as on date. This provided AGPL some relief to its liquidity.

The rating reaffirmation, however, continues to draw strength from the experienced promoters, company’s increasing turnover levels despite facing liquidity pressure, established market position in almond division and new capacities added in its menthol division from its own internal accruals during FY19. BWR also notes that AGPL has able to let out its entire warehouse facilities which will add up to its revenue and profitability in FY20.

KEY RATING DRIVERS

Credit Strengths:

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.

Continued improvement in its turnover levels: Despite closure of its garment division and temporary aberrations on account of GST implementation, AGPL was able to maintain its turnover levels,which increased marginally from Rs. 3294.81 Cr in FY18 to Rs. 3333.37 Cr in FY19. Almond division contributes the major share to its turnover. For Logistics division, AGPL has managed to let out its entire warehouse facilities, which will add up to its revenue and profitability in FY20.

Capex programs: GPL added fully automated Laser Sortex machine with shelling capacity of 100MT/day. It incurred capex of Rs. 9 Cr from its internal accruals. It has also planned to launch brick packs with capex of ~ Rs. 1.50 Cr, out of internal accruals, under their own brand name, in the next 3 months. AGPL added capacities in a new premises, as a backward integration step, to manufacture DL Menthol from m-cresal & thymol. The total cost of the said capex is Rs. 15 Cr of which Rs. 7 Cr is already incurred from its internal accruals.

Credit Risks

Moderation in its profitability levels and interest coverage ratios: Net profit of the Company has declined due to an increase in finance cost from Rs. 106.50 Cr to Rs. 131.93 Cr during FY19. Finance costs of the Company have increased due to stoppage of LOU's by consortium lenders 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 in FY20. Its cash credit limits were fully utilized in FY19 because of the withdrawal of facility to obtain buyers credit in foreign currency under letters of comfort during 2018. Rise in inventory levels also blocked additional working capital funds and this resulted in an increase in financial costs during FY19.

Since, the majority of its turnover is reported from the trading division, ISCR has remained below 2x over the past three years. Though DSCR declined during FY19, AGPL reported adequate cash accruals of Rs. 60.12 Cr vis-a-vis its annual repayment of around Rs. 8-10 Crs.

Working capital intensive nature of operations: The company's operations remain working capital intensive as the majority of its operating revenues were contributed by the almond division. The company is required to maintain high inventory as almond stocks are sold with a time lag of 6-7 months from the date of arrival of shipments. Gross Current Assets of the Company stood at 195 days (P.Y. 175 days) during FY19 as inventory levels went up significantly by Rs. 156 Crs. However, receivables days remained low at 6 days as it usually makes cash sales to wholesale traders.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone performance of Agson Global Private Limited. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

The company's liquidity position is likely to improve if it is able to liquidate its excess inventory in the coming festive season and infuse long term sources (either by debt or equity) in order to bring down its cash credit utilization levels to below 90% over the short term.

Positive: The outlook may be revised to stable if, interalia, the company is able to bring down its cash credit utilization levels to about 90% and consequently improve its liquidity position, improve its net profit margins to above 3%, ISCR and DSCR to above 4x & 3x, respectively and maintain its gearing ratio to below 1.40x over the medium term.

Negative: The rating may be revised if there is a further decline in its profitability margins, interest coverage ratios, debt protection metrics and moderation in its liquidity position.

LIQUIDITY POSITION

Liquidity profile continues to remain stretched, resulting from full utilization in its cash credit limits. However, the management has articulated that the said situation would improve post-disbursement of its LRD loan of Rs. 79 Cr which will be utilized to bring down its CC limit utilization. Inventory continues to remain high during FY19. This resulted in inventory turnover ratio to remain low at 1.98x. Cash & Cash equivalent went down from Rs. 15.14 Cr to Rs. 9.28 Cr and cash flow from operating activities remain negative at Rs. 13.86 Cr owing to increasing inventory levels during FY19.

Thus, going forward, the ability of the Company to bring down its working capital limit utilization to below 90% by liquidating excess inventory, improve profitability and generated significant cash accruals to support its liquidity and ongoing capex for Menthol division, remains crucial.

COMPANY PROFILE

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 achieved in FY19. Menthol Division manufactures crystalline menthol, & its various derivatives. Logistics division is located at Kundli Industrial Area (Delhi – Chandigarh Highway), having total construct area of 55627 sq. mtrs.

AGPL closed its garment division during FY19, as it has not been able to achieve justified internal rate of return; generating low margins with low value addition. Currently, AGPL had adjusted the outstanding of 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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Facility	Current Rating (Year 2019)			Rating History		
	Type	Amt (Rs. Cr)	Rating	20 June 2019	24 Dec 2018	03 Jan 2018
Fund Based Term Loans Cash Credit	Long Term	20.51 1315.00	BWR A - (BWR Single A Minus) (Outlook Negative) (Reaffirmed)	BWR A - (BWR Single A Minus) (Rating under Watch with Developing Implications) (Downgrade)	BWR A (BWR Single A) (Stable) (Reaffirmed)	BWR A (BWR Single A) (Stable) (Upgrade)
Non Fund Based BG/LC	Short Term	80.00	BWR A2 (BWR A Two) (Reaffirmed)	BWR A2 (BWR A Two) (Rating under Watch with Developing Implications) (Downgrade)	BWR A2+ (BWR A2 Plus) (Reaffirmed)	BWR A2+ (BWR A2 Plus) (Reaffirmed)
Total		**1415.51**	**INR One Thousand Four Hundred & Fifteen Crores and Fifty One Lakhs Only**			

#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 Loans BG/LC	480.00 20.51 -	- - 50.00	**550.51**
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**
Total			**1335.51**	**80.00**	**1415.51**

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Short term Debt
- Trading Entities
- Manufacturing Companies

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