

## AG Industries (Bawal) Pvt Ltd

May 25, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	6.48	6.48**	Rating reassigned to [ICRA]AA (stable) from [ICRA]AA (SO) (stable)
Fund-based – Working Capital Facilities	17.00	17.00	Rating reassigned to [ICRA]AA (stable) from [ICRA]AA (SO) (stable)
<b>Total</b>	<b>23.48</b>	<b>23.48</b>	

\*Instrument details are provided in Annexure-1

\*\*Refer to Rating History table for amount outstanding

### Rating action

ICRA has reassigned a long-term rating of [ICRA]AA (pronounced ICRA double A) from the earlier assigned rating of [ICRA]AA (SO) (pronounced ICRA double A Structured Obligation), for the Rs. 23.48 crore<sup>1</sup> bank facilities of AG Industries (Bawal) Pvt Ltd (AGBPL)<sup>2</sup>. The outlook on the long-term rating is Stable.

### Rationale

The re-assignment of rating takes into account a change in analytical approach for AGBPL's rating, whereby the rating is now based on a consolidated view of AG Group (AG Industries Private Limited (AGIPL) along with its subsidiary AGBPL). In addition to being a 100% subsidiary of AGIPL, AGBPL also has strong business linkages with AGIPL, with everyday operations of both the entities handled by the same management.

The rating assigned takes into account the strong share of business (~90%) enjoyed by AG Group for the supply of large plastic injection moulded components to Hero Motocorp Limited (HMCL), the market leader in the Indian two-wheeler industry. The Group has been able to grow its business in tandem with the increase in HMCL's scale of operations over the years. While the Group's dependence on the Original Equipment Manufacturer (OEM) exposes it to high client concentration risks, with supplies to HMCL constituting ~95% to its revenues, the risk is, partially mitigated by the stable share of business enjoyed by the AG Group with the OEM over the years as well as by HMCL's market leadership status.

Although the Group continues to remain focused on the two-wheeler segment, linking its growth prospects to the industry, its efforts to diversify its product and customer profile through acquisitions (entities with supplies to diverse industries such as tractors, passenger and commercial vehicles) are likely to help diversify its segment concentration to an extent. The same will also provide the Group with enhanced growth opportunities, going forward.

The assigned ratings also favourably factor in the Group's stable financial risk profile, characterised by a conservative capital structure, strong internal accruals and debt coverage indicators. Even as the Group's profitability and debt coverage indicators have remained at moderate levels, an improvement in scale of operations is likely to allow return indicators to improve over the short to medium term.

The Group continues to have moderate capex plans, going forward, for setting up a plant in Gujarat to cater to HMCL's plant in the state. An expectation of healthy cash accruals is, however, likely to help the Group maintain its strong credit

<sup>1</sup>100 lakh = 1 crore = 10 million

<sup>2</sup>For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

profile, notwithstanding the need to invest in capacity creation. The Group's ability to maintain its healthy share of business with HMCL, and success achieved in its efforts to diversify the Group's product and customer profile, will remain key rating sensitivities.

## Outlook: Stable

The stable outlook on the long-term rating reflects ICRA's expectation that the Group's revenue and earnings growth are expected to be healthy over the medium term, supported by various business awards from HMCL. ICRA also expects the Group to continue to maintain a conservative financial risk profile, reflected in limited dependence on external borrowings. ICRA expects the domestic two-wheeler industry, the Group's key customer segment, to grow at a moderate pace (8-9%) over the medium term, driven by broad-based growth across segments. Factors such as favourable budgetary allocations for rural development are likely to support growth sentiments. The outlook may be revised to Positive if the AG Group is able to gain healthy business from new customers, which helps in diversifying its customer and segment profile. A ramp up in supplies for such businesses would aid the company's revenue growth prospects and help it in maintaining a strong credit profile. The outlook may be revised to Negative if the Group is not able to generate sufficient returns from capital expenditure incurred over the past few years, thereby leading to muted return indicators. Furthermore, a failure on the part of the Group to maintain its strong share of business with HMCL, could also trigger a revision in outlook.

## Key rating drivers

### Credit strengths

**AG Group remains the primary supplier of plastic injection moulded parts to HMCL, the market leader in Indian two-wheeler industry** –AG Group is the primary supplier of large injection moulded plastic parts to HMCL and caters to all manufacturing facilities of the OEM; the Group supplies products such as seat base, fenders, visor, side cover, cowl, wind screen and utility box to HMCL and caters to ~90% of the plastic requirements for all the vehicles manufactured by the OEM.

**Healthy financial profile with conservative capital structure, strong internal accruals and healthy cash flows from operations** – AG Group's financial risk profile remains healthy, characterised by a conservative capital structure and strong debt coverage indicators. In spite of an increase in debt on the Group's books on account of debt undertaken to fund the capex towards setting up a plant in Halol (Gujarat), the cash accruals have helped it maintain a conservative gearing (estimated gearing of ~0.3 time as of March 31, 2018). The debt coverage indicators continue to remain strong with the company having an estimated Total Debt/OPBDITA of ~0.9 time and NCA/Total Debt of ~70% in FY2018. With a majority of the capex plans already been completed, the healthy cash accruals are likely to help the Group maintain a strong financial risk profile going forward.

**Efforts to diversify product and customer profile through acquisition and joint venture agreements likely to provide opportunities for growth** – Even as HMCL is expected to continue to remain the largest customer for the Group, the management has been making efforts to diversify its customer base. In this regard, the company has acquired the businesses of two entities operating in the steering wheels segments and is in advanced discussion to enter into a joint venture for manufacturing of resonators. The acquisitions are likely to help the Group reduce its exposure to the two-wheeler segment and gain entry into the four-wheeler segment, which would help augment its growth opportunities going forward.

### Credit challenges

**High client concentration risk with supplies to HMCL constituting ~95% of the company's consolidated revenues** – A large business dependence on HMCL (~95%of total business) exposes the Group to high client concentration risk. The risk

if however, mitigated to an extent by the market leadership status of HMCL in the domestic motorcycle market and the Group's strong share of business with the OEM. The Group has remained focussed on increasing its content per vehicle to HMCL and has been able to gain business for new products over the years.

**Moderate return indicators** –The operating profit margins and return indicators of the Group have moderated over the years (RoCE of ~7.8% in FY2017) as a result of capex incurred over the years, even as the scale of operations of various plants has not ramped up to optimum levels. While an improvement in scale of operations and benefits accruing from economies of scale is likely to help the company report improved return indicators over the medium term, the same are likely to remain at moderate levels.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Auto Component Manufacturers](#)

### About the company:

AGBPL is a 100% subsidiary of AGIPL, the primary supplier of large injection moulded plastic parts to HMCL. AGBPL started operations in FY2010 through its manufacturing facility in Bawal (Haryana). The product portfolio of the company includes motor cycle parts such as seat base, fenders, visor, side cover, cowl, wind screen and utility box etc.

### About AGIPL:

AGIPL, established in 1993, is the primary supplier of large injection moulded plastic parts to HMCL (~90% Share of business) and caters to various manufacturing facilities of the OEM. Currently, the company operates four manufacturing facilities - Haridwar (Uttarakhand), Manesar and Gurgaon (Haryana) and Halol (Gujarat).

### Key financial indicators - AGBPL

	FY2016 (Audited)	FY2017 (Audited)
Operating Income (Rs. crore)	168.9	201.0
PAT (Rs. crore)	8.3	5.1
OPBDIT/OI (%)	11.4%	9.6%
RoCE (%)	26.3%	23.5%
Total Debt/TNW (times)	3.5	1.2
Total Debt/OPBDIT (times)	2.0	1.0
Interest Coverage (times)	6.0	6.2

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years:**

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in	Date & Rating in	Date & Rating in	
					November 2017	January 2017	May 2018	March 2016
1	Term Loans	6.48	0.0	[ICRA]AA (stable)	[ICRA]AA (SO) (stable)	[ICRA]AA (SO) (stable)	[ICRA]AA (SO) (stable)	[ICRA]AA (SO) (stable)
2	Fund-based-Working Capital Facilities	17.00	-	[ICRA]AA (stable)	[ICRA]AA (SO) (stable)	[ICRA]AA (SO) (stable)	[ICRA]AA (SO) (stable)	[ICRA]AA (SO) (stable)

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan - 1	August 2011	-	May 2018	2.73	[ICRA]AA (stable)
NA	Term Loan - 2	December 2015	-	April 2018	3.75	[ICRA]AA (stable)
NA	Fund-based-Working Capital Facilities	-	-	-	17.00	[ICRA]AA (stable)

Source: AG Industries (Bawal) Pvt Ltd

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