December 13, 2023

A.G. Industries Pvt. Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	89.13	117.73	[ICRA]AA- (Stable); reaffirmed and assigned for enhanced amount
Long-term/ Short -term – Fund based facilities	237.00	255.00	[ICRA]AA- (Stable)/ [ICRA] A1+; reaffirmed and assigned for enhanced amount
Long-term/ Short -term – Non-Fund based facilities	1.00	0.00	-
Total	**327.13**	**372.73**	

Instrument details are provided in Annexure-I

Rationale

ICRA has taken a consolidated view of A.G. Industries Pvt. Limited (AGIPL) and its subsidiary A.G. Industries (Bawal) Pvt. Ltd. (AGIBPL), collectively referred to as the AG Group, while assigning the credit ratings, given the common management and significant operational and financial linkages between the entities.

The ratings reaffirmation continues to factor in the AG Group's established relationship and strong share of business (SOB) with regards to supply of plastic-based auto components to its key customer, Hero MotoCorp Limited (HMCL; rated [ICRA]AAA (Stable)/[ICRA]A1+), the market leader in the Indian two-wheeler (2W) industry. AGIPL is a part of the Hero Group and is positioned as a captive supplier of HMCL, which accounts for ~85-90% of its total revenues. Thus, the Group's business growth has primarily tracked HMCL's volume growth over the years and it continues to maintain a strong SOB of ~90-95% for relatively larger-sized plastic injection-moulded part requirements of the Original Equipment Manufacturer (OEM). The strong SOB with HMCL provides comfort regarding the ability of the company to generate healthy cash flows going forward, which is likely to help it maintain comfortable credit metrics.

The demand for the 2W industry has remained weak over the past few years, on account of a material increase in prices of 2w's; the industry had recorded a moderate growth in volumes in FY2023 (xx% in the domestic market) on a low base. Consequently, AG Group's revenues grew by ~14.5% YoY to ~Rs. 1,340 crore in FY2023. The Group's operating profit margin improved to 8.2% in FY2023 from 7.8% in FY2022, aided by benefits of operating leverage, productivity improvements and cost-control measures. ICRA notes that in the current fiscal, there has been a change in revenue recognition construct for AG Group with HMCL, wherein certain products/raw materials are being sourced by HMCL and supplied to AG Group. This change is likely to lead to a decline in revenues of the company by ~Rs. 250-300 crore, even as the same is not expected to impact its earnings. The company's operating profitability has reduced to 7.8% in H1 FY2024 from 8.2% in H1 FY2023 (even post the change in revenue recognition construct which leads to an optical increase in margins) due to inability to completely pass on higher manpower cost in the Halol plant; however, the management is currently in talks with HMCL to pass on this increased cost, which should aid the margins in H2 FY2024.

The ratings reaffirmation continues to favourably factor in the Group's healthy financial risk profile, characterised by a conservative capital structure (gearing of 0.6 times as on March 31, 2023) and comfortable debt coverage indicators (interest coverage of 5.9 times in FY2023). ICRA notes that the Group availed sales bills discounting (SBD) facilities from banks for supplies to HMCL from FY2022 onwards, which led to increase in the company's debt levels and a moderation in the Total Debt/ OPBITDA ratio; nevertheless, the same has improved the company's cash flows, to some extent. The company's credit metrics improved in FY2023 aided by an improved performance; over the medium term, the Group's return and credit metrics are likely to further improve, led by a ramp-up in scale of operations.

Even though the Group's dependence on HMCL exposes it to high client concentration risks, the same is mitigated by the OEM's market leadership position as well as the strong and stable SOB enjoyed by the Group over the years. With focus towards light weighting, OEMs are considering greater use of plastic-based components in segments such as fuel tanks and reflex reflectors. This has provided opportunities to the AG Group to expand its content per vehicle (CPV) with HMCL. In addition to efforts towards increasing CPV for supplies to HMCL, the Group has been trying to diversify its client and product portfolios over the past few years, which is likely to yield results over the medium term. ICRA expects the AG Group to record a moderate CAGR in revenues over the medium term (adjusted for the change in revenue recognition construct), aided by the strong market position of HMCL in the 2W industry, which will translate into healthy offtakes for the Group, increasing sales of value-added proprietary products, increasing penetration of electric vehicles (EVs), where the Group has higher CPV and the expectation of increase in the scale of its steering wheel business.

The Stable outlook on the long-term rating reflects ICRA's expectation that the Group's revenue and earnings growth are expected to remain at moderate-to-healthy levels over the medium term, supported by various business awards from HMCL. ICRA expects the Group to continue to maintain a conservative financial risk profile.

Key rating drivers and their description

Credit strengths

Primary supplier of plastic injection-moulded parts to HMCL- The AG Group is involved in the manufacturing of injection moulded plastic components for the automotive industry. It is a part of the Hero Group and is positioned as a captive supplier of HMCL, which accounts for ~85-90% of its total revenues (via direct and indirect supplies through various HMCL ancillaries). The Group supplies various injection-moulded plastic parts to HMCL and specialises in bigger plastic components, such as seat bases, fenders, side covers, wind screens and utility boxes. Around 90-95% of the plastic requirements of all 2Ws manufactured by HMCL are met by the Group. With focus towards light weighting, OEMs are considering greater use of plastic-based components in vehicles, which bodes well for improvement in CPV and consequently the revenue growth prospects of the Group.

Healthy financial profile, characterised by conservative capital structure – At a consolidated level, AGIPL continues to have a healthy financial risk profile, characterised by a conservative capital structure (gearing of 0.6 times as on March 31, 2023) and comfortable debt coverage indicators (interest coverage of 5.9 times and NCA/Total Debt of ~40.9% in FY2023). ICRA notes that the Group availed SBD facilities from banks for supplies to HMCL from FY2022, which led to increase in the company's debt levels and a moderation in the Total Debt/ OPBITDA ratio; nevertheless, the same improved the company's cash flows, to some extent. ICRA expects the Group's financial risk profile to improve over the medium term, led by a ramp-up in the scale of operations of the new plants set up over the past few years.

Efforts to diversify product and customer profiles likely to yield results over the medium term – Even as HMCL is expected to remain the largest customer for the Group, the management has been making efforts to enter new business segments and diversify its customer base. In this regard, the company had acquired the businesses of two entities operating in the steering wheels segments in CY2016. In addition, the AG Group is supplying plastic-based components for three to four electric scooter manufacturers; accordingly, the increasing penetration of EVs augurs well for its revenue growth prospects and would aid some diversification in customer profile going forward.

Credit challenges

High client concentration risk with supplies to HMCL constituting significant revenue share - A large business dependence on HMCL (~85-90% of overall revenues) exposes the Group to high client concentration risk. The risk is, however, mitigated to an extent by the market leadership status of HMCL in the domestic motorcycle market and the Group's established relationship and strong SOB with the OEM. The Group has remained focussed on increasing its CPV to HMCL over the years and has gained business for new products such as air filters, reflex reflectors, and fuel tanks for select models.

Weak demand trends in 2Ws over the past few years have led to moderation in return and debt coverage indicators - AGIPL had set up two manufacturing facilities (one each in Gujarat and Andhra Pradesh at a combined capex of ~Rs. 190 crore) to cater to HMCL's plants (in these states). The enhanced capacity was expected to aid the Group's revenue growth prospects. However, a moderation in demand in the 2W industry over the past few years, coupled with capex incurred towards setting up these plants, led to a moderation in its return indicators till FY2022. The company's return and credit metrics improved to an extent in FY2023 (RoCE of 9.6%, Total Debt/OPBDITA of 1.9 times in FY2023). Over the medium to long term, an expected improvement in scale of operations, led by a gradual ramp-up in operations at the new plants, and benefits accruing from economies of scale are likely to help AGIPL report further improvement in its return and debt coverage profile.

Liquidity position: Adequate

AGIPL's liquidity position is **adequate**, characterised by an expectation of stable retained cash flows and availability of adequate unutilised lines of credit (average buffer of ~Rs. 50.8 crore in the CC/WCDL limits in the 12-month period ending September 2023). As against this, the company has capex requirements of ~Rs. 35-40 crore p.a. which will be funded by a mix of loan and internal cash reserves, and debt repayments of Rs. 36-40 crore p.a., with its cash flows likely to be adequate to help repay the same in a timely manner.

Rating sensitivities

Positive factors – Any sustained improvement in the Group's operational profile through material diversification of its customer base as well as product portfolio could trigger a rating upgrade over the medium term. Further, improvement in profitability indicators with RoCE over 20%, on a sustained basis, would be favourably considered for an upward rating revision.

Negative factors – A rating downgrade could be triggered, if there is any significant deterioration in the operational profile of the Group, led by a decline in share of business with HMCL. Further, a deterioration in profitability or a higher-than-expected debt-funded capex, which adversely impacts the credit profile of the entity could trigger a downward revision in ratings. A specific credit metric for a downgrade is if Debt/OPBDITA is greater than 2.0 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of AGIPL. As on March 31, 2023, the company had a subsidiary, which is enlisted in Annexure-2.

Note (for analyst reference only):

About the company

A.G. Industries Private Limited (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. At present, the company operates seven manufacturing facilities—one each at Haridwar (Uttarakhand), Manesar (Haryana), Gurgaon (Haryana), Bawal (Haryana), Halol (Gujarat), Chittoor (Andhra Pradesh) and Dharuhera (Haryana). The company's product portfolio includes two-wheeler parts such as seat bases, fenders, visors, side covers, cowls, wind screens and utility boxes. Ms. Geeta Anand, the managing director of AGIPL, is the daughter of the Late Brij Mohan Munjal (the erstwhile chairman of HMCL). AGIPL is a part of the Hero Group and is positioned as a captive supplier of the OEM, maintaining a strong SOB over the years. Supplies to the OEM constitute ~85-90% of AGIPL's overall revenues.

In addition, the company's subsidiary – A.G. Industries (Bawal) Pvt Ltd (ABGPL, established in 2009), has a manufacturing facility at Bawal (Haryana) for primarily supplying injection moulded components to HMCL's Dharuhera (Haryana) plant. AGIPL had a subsidiary named Gmax Auto Limited (Gmax) (set up in FY2012), who primarily catered to HMCL's Neemrana (Rajasthan) plant). Gmax was merged with AGIPL in 2017 and at present operates as a business unit of AGIPL.

Key financial indicators (audited)

AGIPL Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	1,171.0	1,340.6	570.1
PAT	9.6	21.5	-
OPBDIT/OI	7.8%	8.2%	7.8%
PAT/OI	0.8%	1.6%	-
Total outside liabilities/Tangible net worth (times)	1.4	1.2	-
Total debt/OPBDIT (times)	2.8	1.9	-
Interest coverage (times)	4.9	5.9	-

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional numbers*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of September 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Dec 13, 2023	Nov 24, 2022	Nov 12, 2021	Oct 30, 2020	Apr 23, 2020
1	**Term loans**	Long term	117.73	76.31	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**
2	**Fund-based bank facilities**	Long term and short term	255.0	NA	**[ICRA]AA-(Stable)/ [ICRA]A1+**	**[ICRA]AA-(Stable)/ [ICRA]A1+**	**[ICRA]AA-(Stable)/ [ICRA]A1+**	**[ICRA]AA-(Stable)/ [ICRA]A1+**	-
3	**Non-Fund Based Facilities**	Long term and short term	0.00	NA	-	**[ICRA]AA-(Stable)/ [ICRA]A1+**	**[ICRA]AA-(Stable)/ [ICRA]A1+**	**[ICRA]AA-(Stable)/ [ICRA]A1+**	**[ICRA]AA-(Stable)/ [ICRA]A1+**
4	**Fund-Based Limits-Working Capital Limits**	Short term	-	-	-	-	-	-	**[ICRA]A1+**
5	**Non-Fund Based Facilities**	Long Term	-	-	-	-	-	-	**[ICRA]AA-(Stable)**

&: ***Rating Watch with Developing Implications***

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term/ Short -term – Fund-based limits	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan-I**	FY2019	NA	FY2025	13.68	[ICRA]AA-(Stable)
NA	**Term Loan-II**	FY2021	NA	FY2027	21.17	[ICRA]AA-(Stable)
NA	**Term Loan-III**	FY2021	NA	FY2027	29.88	[ICRA]AA-(Stable)
NA	**Term Loan-IV**	FY2021	NA	FY2027	7.00	[ICRA]AA-(Stable)
NA	**Term Loan-V**	FY2024	NA	FY2029	26.00	[ICRA]AA-(Stable)
NA	**Term Loan-VI**	FY2024	NA	FY2029	20.00	[ICRA]AA-(Stable)
NA	**Fund Based Limits**	NA	NA	NA	255.00	[ICRA]AA-(Stable)/[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
A.G. Industries Private Limited	100.00% (rated entity)	Full Consolidation
A.G. Industries (Bawal) Private Limited	100%	Full Consolidation

Source: AGIPL annual report
Note: ICRA has taken a consolidated view of the parent (AGIPL), and its subsidiary while assigning the ratings.

ANALYST CONTACTS

Shamsher Dewan
+91 12 4454 5328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 4596 4318
srikumar.k@icraindia.com

Rohan Kanwar Gupta
+91 124 4545 808
rohan.kanwar@icraindia.com

Anuj Saraswat
+91 81 2694 6394
anuj.saraswat@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches