January 3, 2025

A.G. Industries Pvt. Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	117.73	75.39	[ICRA]AA- (Stable); reaffirmed
Long-term/ Short -term – Fund based facilities	255.00	295.00	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Short -term – Unallocated	-	2.34	[ICRA]A1+; reaffirmed
Total	**372.73**	**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 regard 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 2Ws. The industry had recorded a moderate growth in volumes in FY2024 (13% in the domestic production volumes) on a moderate base. ICRA notes that from FY2024, there had been a change in revenue recognition construct for the AG Group with HMCL, wherein certain products/raw materials are being sourced by HMCL and supplied to the AG Group[1]. The impact of B2S2 mechanism was ~Rs. 230 crore on the company's top line during FY2024 and the same is expected to be ~Rs. 350 crore in FY2025. AGIPL, on a consolidated level, reported a revenue of Rs. 1,319 crore in FY2024 (not adjusted for B2S2 mechanism) and Rs. 1,094 crore (adjusted for B2S2 mechanism), which represented flattish revenues on a YoY basis with FY2023 standing at ~Rs. 1,340 crore. The company's revenues are strongly tied to production volumes of HMCL. The company's revenues are expected to grow at a steady pace in FY2025, with the company's revenues standing at Rs. 554 crore (adjusted for B2S2 mechanism) and Rs. 731 crore (not adjusted for B2S2 mechanism) in H1 FY2025.

AGIPL's OPM stood at 7.1% in FY2024 declining from 8.2% in FY2023 (even post the change in revenue recognition mechanism, which leads to an optical increase in margins), impacted by a material increase in employee expenses (which rose from 11.5% of revenues in FY2023 to 15.6% in FY2024). This was due to a sharp rise in wages in the company's Halol plant, Gujarat (witnessing an increase of 30%) and further rise in wages at plants across India. The company's margins improved in H1 FY2025

[1] The updated revenue recognition method wherein certain products/raw materials are being sourced by HMCL and supplied to the AG Group is referred to as B2S2 mechanism in the rationale.

and stood at ~10% with an OPBDITA of Rs. 58.9 crore (adjusted for B2S2 mechanism), as the company has received some compensation for the wage increase in FY2024, and benefits from various cost-efficiency measures.

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, 2024) and comfortable debt coverage indicators (interest coverage of 4.4 times in FY2024). ICRA notes that the Group availed sales bills discounting (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. However, the same has improved the company's cash flows, to some extent. The company's return indicators have remained suppressed led by pressure on profitability over the past few years. Over the medium term, the Group's return and credit metrics are likely to improve, aided by a ramp-up in scale of operations and improved profitability.

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. OEMs are considering greater use of plastic-based components in segments such as fuel tanks and reflex reflectors with a view to reduce vehicle weight. This has provided opportunities to the AG Group to expand its content per vehicle (CPV) with HMCL. In addition to 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, increasing sales of value-added proprietary products, increasing penetration of electric vehicles (EVs), where the Group has higher CPV and the expectations of increase in the scale of its steering wheel business.

The Stable outlook on the long-term rating reflects ICRA's expectations 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, 2024) and comfortable debt coverage indicators (interest coverage of 4.4 times in FY2024). ICRA notes that the Group availed sales bills discounting (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 has improved the company's cash flows, to some extent. 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 and improved profitability.

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 company 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 supplies plastic-based components for three to four 2W and e2W (electric two wheeler) OEMs.

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 moderated return and debt coverage indicators; gradual improvement in the same ongoing – 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 metrics improved in FY2023 with RoCE reaching 9.6% in FY2023 and debt coverage indicators improving such as Total Debt/OPBDITA increased to 1.9 times in FY2023. However, with the changes in revenues recognition mechanism and the decline in margin, the company's financial indicators suffered during FY2024. The company's RoCE stood at 5% in FY2024 (down from 9.6%), the TD/OBBDITA deteriorated to 2.8 times from 1.9 times in FY2023. The metrics are expected to gradually improve, aided by improvement in scale of operations over the medium term.

Liquidity position: Adequate

AGIPL's liquidity position remains adequate, characterised by an expectation of steady retained cash flows and availability of adequate unutilised lines of credit (average buffer of Rs. 46.2 crore in the CC/WCDL limits in the 12-month period ending October 2024). Against this, the company has capex requirements of Rs. 15-20 crore p.a., which are expected to be funded by a mix of loan and internal cash reserves. The company has debt repayments of Rs. 30-35 crore p.a., with its cash flows likely to be adequate to 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 Auto Components
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of AGIPL. As on March 31, 2024, the company had a subsidiary, which is enlisted in Annexure-2

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, Gmax Auto Limited (Gmax) (set up in FY2012), which 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)

	FY2023	FY2024
Operating income	1,340.6	1,094.5
PAT	21.5	7.7
OPBDIT/OI	8.2%	7.1%
PAT/OI	1.6%	0.7%
Total outside liabilities/Tangible net worth (times)	1.2	1.1
Total debt/OPBDIT (times)	1.9	2.8
Interest coverage (times)	5.9	4.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
		FY2025		FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount Rated (Rs Crore)**	**Jan 3, 2025**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Term Loans	Long Term	75.39	[ICRA]AA-(Stable)	13-Dec-23	[ICRA]AA-(Stable)	24-Nov-22	[ICRA]AA-(Stable)	12-Nov-21	[ICRA]AA-(Stable)
Fund-based bank facilities	Long Term and Short term	295.00	[ICRA]AA-(Stable)/ [ICRA]A1+	13-Dec-23	[ICRA]AA-(Stable)/ [ICRA]A1+	24-Nov-22	[ICRA]AA-(Stable)/ [ICRA]A1+	12-Nov-21	[ICRA]AA-(Stable)/ [ICRA]A1+
Non-Fund Based Facilities	Long Term and Short term	0.00	-	-	-	24-Nov-22	[ICRA]AA-(Stable)/ [ICRA]A1+	12-Nov-21	[ICRA]AA-(Stable)/ [ICRA]A1+

Unallocated	Short Term	2.34	[ICRA]A1+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term/ Short -term – Fund-based Limits	Simple
Short -term – Unallocated Limits	Not Applicable

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	3.16	[ICRA]AA-(Stable)
NA	**Term Loan-II**	FY2021	NA	FY2027	13.13	[ICRA]AA-(Stable)
NA	**Term Loan-III**	FY2021	NA	FY2027	20.70	[ICRA]AA-(Stable)
NA	**Term Loan-IV**	FY2021	NA	FY2027	5.00	[ICRA]AA-(Stable)
NA	**Term Loan-V**	FY2024	NA	FY2029	20.00	[ICRA]AA-(Stable)
NA	**Term Loan-VI**	FY2024	NA	FY2029	13.40	[ICRA]AA-(Stable)
NA	**Fund Based Limits**	NA	NA	NA	295.00	[ICRA]AA-(Stable)/[ICRA]A1+
NA	**Unallocated**	NA	NA	NA	2.34	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 AGIBPL while assigning the ratings

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