

Azad Engineering Private Limited

March 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Non-convertible debentures	15.00	CARE BBB+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to instruments of the Azad Engineering Private Limited (AEPL) draws strength from experienced promoter and leadership team, established relationship with reputed OEMs, track record of supplying components to OEMs & advanced infrastructure, healthy growth in revenue with satisfactory margins and comfortable financial profile with projected improvement. The rating is however constrained by the elongated working capital cycle and moderate scale of operations.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Increase in scale of operations with total operating income (TOI) improving to ₹350 crore and above while maintaining profit before interest depreciation and tax (PBIDT) margin 30% on a sustained basis.
- Improvement in liquidity position with average working capital utilization levels falling below 70% and operating cycle shortening to less than 150 days on a sustained basis.

Negative factors

- Significant decline in the TOI or PBIDT by more than 30% y-o-y
- PBIDT margin falling below 20%, going forward on a sustained basis.
- Overall gearing deteriorating to more than 1.0x in future

Analytical approach: Standalone

Outlook: Stable

Stable outlook assigned to rating considers satisfactory operations of the company in the near term with achievement of projected performance based on orders in hand and committed upcoming orders from the existing as well as new customers.

Key strengths

Experienced promoters and leadership team:

The promoter Rakesh Chopdar has more than 25 years of experience in precision engineering industry. He has developed healthy relationship with the customers through timely execution, consistent quality and achieving requisite certifications for the processes followed. Business operations are led by professionals having an average experience of more than 16 years in their individual field of expertise and having played key roles in Siemens, Godrej Aerospace, Toshiba, and Mercedes India.

Established relationships with reputed OEMs:

AEPL has running long-term contracts with reputed customers in domestic & export markets. The business can be broadly divided into two business verticals – Energy and Aerospace. The company is a supplier to established and known OEMs like GE, Mitsubishi, BHEL, Siemens, Toshiba etc in the energy segment and Honeywell, GE Aviation, Boeing, Eaton, HAL etc in the Aerospace segment. The export sales are well diversified to regions such as US, UK, Europe, Japan, and Middle East. The market for turbine blades is valued around ₹ 12,600 crores. AEPL has obtained 1200+ product qualifications and 45+ process qualifications in last 10 years which provides it an edge over competition as product and process qualification is capital and time consuming. The company is one of the four major global players offering similar products.

Established track record and advanced infrastructure:

The company has an established facility at Hyderabad. The company has been adding capacity since FY18. At present the infrastructure includes Forge Shop, Heat Treatment Shop, Hi-Tech CNC Machines, State of the art Laboratory, state-of-the-art Inspection Facility, Heavy Machining Shop, Manufacturing software etc. Moreover, the company has obtained various international certifications namely National Aerospace and Defence Contractors Accreditation Program (NADCAP), ISO 9001:2015 (QMS), AS9100 D, ISO 14001: 2015 (EMS), BS 45001: 2018 (OHSAS) and ISO 27001: 2013 (ISMS) for its facilities. It has recently been certified for supply of components for nuclear turbines from EDF, France. The company has been a qualified Other Equipment Manufacturer for many of its clients since inception.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

Healthy growth in revenue with satisfactory margins:

The total operating income (TOI) of company has depicted a CAGR of 24% in for five years ended March 31, 2022. TOI has increased from ₹82.56 crore in FY18 to ₹ 193.19 crore in FY22 and further reached to ₹ 170.94 crore for 9MFY23. The same has been achieved because of consistent supply of products with focus on the quality of the components supplied. Major sales of company are in form of exports which commands better profitability margins. Profitability of company has remained satisfactory with PBILDT margins of more than 30% in last five years barring FY21 (COVID-19). The company commands profitability margins because of critical nature of components manufactured and absence of notable competition.

Comfortable financial profile with projected improvement:

The financial profile of company marked by overall gearing of 1.34x on March 31, 2022, is comfortable. Total debt of ₹ 178.71 crore consisted of term loan of ₹ 82.91 crore, working capital in form of PCFC ₹ 53.80 crore and optionally convertible debentures of ₹ 42.00 crore from DMI Finance (DMI). The overall gearing is projected to improve to below 0.40x, because of improvement in the net worth of company through ploughed back profits and compulsorily convertible debentures (CCD) of ₹ 160.00 crore by Piramal Structured Credit Opportunities Fund (Piramal) which replaced funds from DMI and ₹ 80 crore from group of HNIs. The long-term funding availed has been deployed for enhancing capacity by adding advanced CNC Machines and auxiliary equipment.

Stable industry outlook:

The global power demand was expected to grow by 2.4% in 2022 by The International Energy Agency (IEA) in its last report released in July 2022. While electricity demand is currently expected to continue a similar growth path into 2023, the outlook is clouded by economic turbulence and uncertainty over how fuel prices could impact the generation mix. The core of power generation irrespective of the fuel used i.e., turbine, remains critical equipment for the industry. AEPL through its capabilities build over more than a decade is supplying the critical parts of the turbines to reputed OEMs in the industry. The aviation industry is expecting profit in CY2023 after losses of USD 6.9 billion in CY2022. The industry hit by COVID-19 related restrictions has seen growth in travel in both business and leisure segment. The growth in travel shall warrant industry to upgrade the fleet apart from maintenance of the existing fleet, which provides opportunity for aircraft OEMs and AEPL that supplies to these OEMs.

Key weaknesses

Elongated working capital cycle:

The working capital cycle is elongated on account of higher receivables as on March 31, 2022, as the export receivables have credit period of 120 - 150 days and payment from few domestic customers was delayed. The inventory holding has increased from 90 days on March 31, 2021, to 113 days as on March 31, 2022, due to increase in inventory and longer lead time. In view of the increased order book position and avoiding shortage of raw material due to Russia Ukraine War, company has procured raw material in advance.

Moderate scale of operations:

The company's business risk profile is constrained by its modest scale of operations and turnover, though there has been steady rise in the revenues. Thus, the company is yet to enjoy any significant economies of scale and bargaining power with the customers. It may be noted that the clients of company benefit from both expertise and low -cost conversion offered compared to OEMs inhouse operations and existing vendors, which results in repeat orders from the established OEMs.

Liquidity: Strong

Liquidity is marked by strong accruals against repayment obligations of ₹ 25 crore and cash & cash equivalents of ₹ 67.38 crore on December 31, 2022 (₹ 17.66 crore on March 31, 2022). The gearing is set to improve from 1.34x on March 31, 2022, to 0.36x for March 31, 2023, due to ploughing back of profits and CCDs raised from Piramal. Though the bank limits have been utilised to average of 95%, company has maintained minimum free cash of ₹ 2 crore in last 12 months ended January 31, 2023. Current ratio remained 1.13x for FY21 and FY22. The company invests steadily in addition of machines to support the customer' demand. The available funds from operations and CCD seems sufficient to fund ongoing capex.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Manufacturing	Industrial Products

Azad Engineering Private Limited (AEPL) incorporated by Mr. Rakesh Chopdar in 1983, is engaged into manufacturing of precision forged and machined components for clean energy, aerospace, defence, oil & gas, standalone power supply (SPS) as required by OEMs, with its manufacturing unit in Hyderabad. Company manufactures all types of blades for both radial & axial flow.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	123.12	193.19	170.94
PBILDT	31.31	59.70	51.16
PAT	10.68	27.97	NA
Overall gearing (times)	0.99	1.34	NA
Interest coverage (times)	6.40	4.71	1.55

A: Audited, UA: Unaudited, NA: Not available. Note: The above results are latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures		31-03-2023	10	31-03-2030	15.00	CARE BBB+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non Convertible Debentures	LT	15.00	CARE BBB+; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable
Annexure-4: Complexity level of the various instruments rated.

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Complex

Annexure-5: Lender details: Not applicable

Note on the complexity levels of the rated instruments: CARE Ratings Limited (CARE Ratings) has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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