

Axtel Industries limited

February 04,2022

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|--|--|--|--|
| Long Term / Short Term Bank Facilities | 12.00 | CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable/ A Two) | Revised from CARE BBB; Positive / CARE A3+ (Triple B ; Outlook: Positive / A Three Plus) |
| Short Term Bank Facilities | 8.00 | CARE A2 (A Two) | Revised from CARE A3+ (A Three Plus) |
| Total Bank Facilities | 20.00 (Rs. Twenty Crore Only) | | |

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Axtel Industries Limited (AIL) takes into account improvement in financial risk profile marked by growth in total operating income (TOI); albeit on a moderate base, improvement in profitability and debt coverage indicators, and strengthening of AIL's liquidity profile marked by high cash and bank balance including liquid investments as on March 31, 2021.

The ratings continue to derive strength from the long-standing experience of the promoters in manufacturing of food processing machinery and equipment, its established operational track record of more than two decades, reputed clientele and its state of the art manufacturing facility located in Halol (Gujarat).

The ratings, however, continue to remain constrained on account inherent risk of fluctuations in profit margins due to customized nature of sales with limited flexibility in re-pricing its products.

Key Rating Sensitivities

Key Positives (Factors that can lead to positive action/upgrade)

- Significant growth in TOI while maintaining its profitability at FY21 levels on a sustained basis

Key Negatives (Factors that can lead to negative action/downgrade)

- Decline in TOI and PBILDT by more than 20%
- Deterioration in its liquidity profile or increase in its overall gearing below
- Deterioration in debt coverage indicators with total debt to gross cash accruals (TDGCA) of a year or higher with an overall deterioration in liquidity profile with a further elongation in operating cycle by 40 days or more.

Detailed description of the key rating drivers

Key Rating Strengths

Growth in scale of operations along with improvement in profitability

The TOI of AIL grew by 58% y-o-y to Rs.154.82 crore during FY21. The improvement in TOI was due to execution of few large orders. Majority part of production is order-backed and customized in line with requirement of the client. Exports remained stable at around 20% to TOI during last two years ending FY21. The profitability, also improved in FY21 as marked by PBILDT and PAT margin of 19.68% (FY20:16.80%) and 13.76% (FY20:10.62%) respectively.

During H1FY22, AIL reported TOI, PBILDT and PAT of Rs.53.33 crore, Rs.6.79 crore and Rs. 5.08 crore respectively vis-à-vis Rs.72.33 crore, Rs.17.76 crore and Rs.12.10 crore in H1FY21. The reduction was largely due to lower order flow following disruptions due to COVID-19 in FY21. Nevertheless, as articulated by the management, AIL has a good order book and operations has also scaled up in H2FY22.

Comfortable capital structure and debt coverage indicators

AIL's capital structure improved with overall gearing of 0.008 times as on March 31, 2021 as against 0.14 times as on March 31, 2020 owing to decrease in level of total debt led repayment of outstanding loan. Debt coverage indicators also continued to improve as marked by TDGCA of 0.03 x as on March 31, 2021 as against 0.57 x as on March 31, 2020 on account of decrease in total debt level coupled with increase in GCA during FY21. Interest coverage ratio also improved to 42.49x during FY21 as against 24.45x during FY20, led by an increase in operating profits.

Liquidity: adequate

AIL's liquidity improved during FY21 marked by growth in free cash & bank balance and liquid investments of Rs.41.53 crore as on March 31, 2021 (Rs.30.45 crore as on March 31, 2020), low reliance on bank borrowings for working capital requirements and negligible LT debt repayment obligations. Consequent to reduction in working capital cycle, AIL's cash flow from operations also increased to around Rs.25 crore in FY21. AIL's current ratio stood comfortable at 2.42 times as on March 31, 2021 as compared with 1.99 times as on March 31, 2020. Average utilisation of fund-based working capital limits stood low at just 3% during the trailing 12 months ended on December, 2021, as the working capital requirement is largely being funded from

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

internal accruals and advance from customers. Against a comfortable GCA level of Rs.23.86 crore in FY21; principal debt repayments remain negligible in the medium term.

Experienced promoters and established operational track record with reputed clientele

The promoters hold more than three decades of experience in manufacturing customized solutions for food processing industry. Over the last two decades, AIL has developed strong design, manufacturing and design capability to cater customized requirements of reputed Multinational Corporations (MNCs) in the Fast Moving Consumer Goods (FMCG) segment, both in domestic as well as overseas markets. AIL caters through state-of-the-art manufacturing facility at Halol, Gujarat with strategic partnership for other specialized operations.

Key Rating Weakness

Inherent risk of fluctuations in profit margins due to customized nature of sales coupled with customer concentration risk

AIL's profitability is dependent on nature of product manufactured, level of complexity and customisation of the project executed in the year. Moreover, AIL's clientele consists of very large organized players in food processing value chain, hence it has a limited bargaining power in terms of ability to revise prices for steep increase in raw material prices. Procurement of raw materials is also project-specific and hence, AIL does not have long-term supply contracts with suppliers. Consequently, AIL's profitability remains susceptible to raw material price volatility, especially in contracts with a long execution time. During FY21, top five customers contributed around 61% to TOI, as compared to 68% during FY20.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Rating Outlook and Credit Watch](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity analysis of Non-financial Sector Entities](#)

[Rating Methodology - Manufacturing Companies](#)

[Criteria for short term instruments](#)

About the Company

Incorporated in 1991 as Advanced Extrafoil Technology and Exports Limited, AIL is engaged in manufacturing food processing equipment and machineries and systems for food processing industry. AIL offers complete process plants as well as individual equipment covering requirements in the food processing value chain from raw material reception to the final stages of processing. Its products find use in various food processing industries such as confectionery, malted drinks, aqua feed, ready to eat foods, bakery & biscuits, dairy products, beverages, instant mixes, snack foods, spices, condiments & seasoning.

AIL is headed by an experienced board of directors consisting of promoter directors Mr. Ajay Parikh and Mr. Ajay Desai.

AIL operates from its sole manufacturing facility located at Halol (Gujarat).

| Brief Financials (Rs. crore) | 31-03-2020 (A) | 31-03-2021 (A) | 30-09-2021 (P) |
|-------------------------------------|-----------------------|-----------------------|-----------------------|
| Total operating income | 102.53 | 154.82 | 53.33 |
| PBILD | 17.23 | 30.46 | 6.79 |
| PAT | 10.89 | 21.29 | 5.08 |
| Overall gearing (times) | 0.14 | 0.01 | 0.01 |
| Interest coverage (times) | 24.45 | 42.49 | 28.29 |

A: Audited, P: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---------------------------------------|------|------------------|-------------|---------------|-------------------------------|---|
| Fund-based - LT/ ST-CC/Packing Credit | | - | - | - | 12.00 | CARE BBB+; Stable / CARE A2 |
| Non-fund-based - ST-BG/LC | | - | - | - | 8.00 | CARE A2 |

Annexure-2: Rating History of last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---------|--|-----------------|--------------------------------|-----------------------------|---|--|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1 | Fund-based - LT/ ST-CC/Packing Credit | LT/ST* | 12.00 | CARE BBB+; Stable / CARE A2 | - | 1)CARE BBB; Positive / CARE A3+ (20-Jan-21) 2)CARE BBB; Stable / CARE A3+ (26-Jun-20) 3)CARE BBB; Stable / CARE A3+; ISSUER NOT COOPERATING* (28-Apr-20) | - | 1)CARE BBB; Positive / CARE A3+ (01-Mar-19) |
| 2 | Non-fund-based - ST-BG/LC | ST | 8.00 | CARE A2 | - | 1)CARE A3+ (20-Jan-21) 2)CARE A3+ (26-Jun-20) 3)CARE A3+; ISSUER NOT COOPERATING* (28-Apr-20) | - | 1)CARE A3+ (01-Mar-19) |

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable**Annexure 4: Complexity level of various instruments rated for this company**

| Sr. No | Name of instrument | Complexity level |
|--------|---------------------------------------|------------------|
| 1 | Fund-based - LT/ ST-CC/Packing Credit | Simple |
| 2 | Non-fund-based - ST-BG/LC | Simple |

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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