Axtel Industries Limited

January 20, 2021

Ratings

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

Details of facilities in Annexure-1

Detailed Rationale and key rating drivers

The ratings assigned to the bank facilities of Axtel Industries Limited (AIL) continue to derive strength from its moderate scale of operations and its overall financial risk profile marked by moderate scale of operations, comfortable profit margins, capital structure and debt coverage indicators along with adequate liquidity position in FY20 (FY; refers to the period April 01 to March 31). The ratings, further, continue to derive strength from the long standing experience of the promoters in manufacturing of food processing machines, its established operational track record of more than two decades and reputed clientele in its portfolio. Furthermore, the ratings take into consideration the improvement in scale of operations and profitability during H1FY21 (Unaudited) over H1FY20 (Unaudited).

The ratings, however, continue to remain constrained on account susceptibility of profit margins to volatility in raw material prices, customer concentration risk and moderately elongated operating cycle.

Outlook: Positive

The outlook is revised from 'Stable' to 'Positive' on account of CARE's expectation of further improvement in AIL's operating and financial performance leading to increase in scale of operations, profitability and solvency position. However, the outlook may be revised to 'Stable' in case of lower than expected improvement in overall operational and financial performance of the company.

Rating Sensitivities

Positive Factors

- Sustained growth in total operating income (TOI) by more than 10% with a subsequent increase in profitability
- Sustaining the comfortable capital structure and debt coverage indicators at current levels

Negative Factors

- Decline in TOI and PBILDT by more than 20%
- 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

Moderate scale of operations and comfortable profit margins

The TOI of AIL continued to remain moderate albeit declined by 9.64% y-o-y and remained at Rs.102.53 crore during FY20. The decline in TOI was was due to delay in execution of contracts as the operations were halted towards the end of March 2020 during lockdown declared by Government on account of the spread of COVID-19. The profitability, also continued to remain comfortable in FY20 as marked by PBILDT margin of 16.80% albeit moderated from 19.91% in FY19, owing to lower absorption in fixed cost; primarily employee cost during FY20. PAT margin continued to remain comfortable at 10.62% in FY20 as against 11.42% in FY19. Further, during H1FY21 (Unaudited) the company reported a TOI, PBILDT and PAT of Rs.72.33 crore, Rs.17.76 crore and Rs.12.10 crore respectively vis-à-vis Rs.50 crore, Rs.7.34 crore and Rs.4.15 crore respectively during H1FY20.

Comfortable capital structure and debt coverage indicators

AIL's capital structure continued to remain comfortable with overall gearing of 0.14 times as on March 31, 2020 as against 0.02 times as on March 31, 2019 owing to increase in level of total debt led by availment of loan from NBFC for supporting its

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

working capital requirements. However, the same was availed by pledging investments in securities and mutual funds by AIL during November, 2019. Debt coverage indicators also continued to remain comfortable as marked by TDGCA of 0.57x as on March 31, 2020 as against 0.07x as on March 31, 2019 on account of increase in total debt level coupled with decrease in GCA during FY20. Interest coverage ratio remained comfortable at 24.45x during FY20 though deteriorated from 46.99x during FY19, led by a decrease in operating profits during FY20.

Experienced promoters and established operational track record with reputed clientele
AIL is operational in this industry since 1991, while the promoters hold more than three decades of experience into same line of business. Over the period, AIL has developed strong business presence and established well known customer base including reputed Multinational Corporations (MNCs) in its portfolio, largely across Fast Moving Consumer Goods (FMCG) segment; both in domestic as well as overseas markets.

Key Rating Weaknesses
Susceptibility of profit margins to volatility in its raw material prices coupled with customer concentration risk
AIL's customer portfolio consists of very large organized players in food processing value chain; hence the company has limited bargaining power in terms of ability to pass on any adverse movement in raw material prices. Also the company has no fixed price contracts with its suppliers for supply of raw materials; thus faces uncertainty with respect to volatility in price of raw materials. Furthermore, customer concentration risk also persists as top five customers contribute ~68% to TOI during FY20 as compared to ~52% to TOI during FY19.

Moderately elongated operating cycle
Operating cycle remained at 102 days during FY20 as against 77 days during FY19, led by an elongation in the inventory holding period owing to delay in execution of few orders by the end of March 2020 due to nationwide lockdown declared by the Government on account of COVID-19 pandemic. The Gross Current asset days remained at 291 (213 days during FY19) against creditors of 66 days during FY20. However, the average utilization of working capital borrowings remained miniscule as the working capital requirement is largely being funded from its healthy internal accruals and creditors.

Impact of COVID-19 on business operations of AIL
Being into capital goods food processing equipment manufacturing industry with reputed client profile there has been not significant impact on the business operations of AIL. Also, the end user industry being considered into essential commodities, the demand of products of AIL is not expected to get adversely affected. However, the business operations had been halted from March 22, 2020 to April 23, 2020 during lockdown declared by Government on account of COVID-19 pandemic, however the manufacturing operations partly resumed from April 24, 2020 and got fully functional from May 01, 2020. Further, it has also not faced any major labour shortages as the labourers became gradually available when the operations resumed. Currently it is operating with full labour availability while it is also receiving regular orders from domestic as well as overseas customers.
Overall, due to COVID-19 led disruption in the domestic and world economies and envisaged moderation in the economic activities and GDP during FY21, the achievement of growth in the scale of operations and envisaged level of profitability margins would remain key rating sensitivities.

Liquidity: Adequate
The liquidity indicators of AIL remained adequate marked by current ratio of 1.38 times as on March 31, 2020 as compared with 1.60 times as on March 31, 2019 on account of increase in value of trade payables and advances from customers as on balance sheet date led by operational disruptions owing to lockdown declared by Government on account of COVID-19 pandemic. The average fund-based working capital limits utilization during past twelve months ended on December, 2020 remained very low, i.e. 3% as the working capital requirement is largely being funded from internal accruals. (Maximum working capital limit utilization remained at around 10%). For non-fund based facilities (Bank Guarantee) the average utilization remained at around 80% for the past 12 months ended December, 2020.
As on March 31, 2020 cash and bank balance remained moderate at Rs.1.95 crore, while net cash flow from operations was comfortable during FY20. As on March 31, 2020 AIL also has non-current investments in the form of mutual funds amounting to Rs.26.18 crore (Rs.14.90 crore as on March 31, 2019). Principal debt repayments are moderate at Rs.2.90 crore during FY21 considering comfortable GCA level of Rs.13.54 crore in FY20 resulting into comfortable debt servicing. Further it is to be noted that AIL has not availed any moratorium or enhancement in debt facilities under COVID-19 relief package.

Analytical Approach: Standalone

Applicable Criteria
Criteria on assigning outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Manufacturing Companies
Liquidity analysis of Non-financial sector entities
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments

About the Company
Axtel Industries Ltd. (AIL) was incorporated in 1991 as Advanced Extrafoil Technology and Exports Limited to manufacture food processing equipment for solid handling, size reduction, mixing & blending, storage & discharge, cleaning & grading etc. The company 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).
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.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
	A	A
Total operating income	113.47	102.53
PBILDT	22.59	17.23
PAT	12.96	10.89
Overall gearing (times)	0.02	0.14
Interest coverage (times)	46.99	24.45

A: Audited

Till H1FY21 (Unaudited), AIL reported a TOI of Rs.72.33 crore with a PAT of Rs.12.10 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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; Positive / CARE A3+
Non-fund-based - ST-BG/LC	-	-	-	8.00	CARE A3+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (06-Feb-18)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	12.00	CARE BBB; Positive / CARE A3+	1)CARE BBB; Stable / CARE A3+ (26-Jun-20) 2)CARE BBB; Stable / CARE A3+; ISSUER NOT COOPERATING* (28-Apr-20)	-	1)CARE BBB; Positive / CARE A3+ (01-Mar-19)	1)CARE BBB; Stable / CARE A3+ (06-Feb-18)
3.	Non-fund-based - ST-BG/LC	ST	8.00	CARE A3+	1)CARE A3+ (26-Jun-20) 2)CARE A3+; ISSUER NOT COOPERATING* (28-Apr-20)	-	1)CARE A3+ (01-Mar-19)	1)CARE A3+; Stable (06-Feb-18)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-CC/Packing Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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