

Axtel Industries Limited

January 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	12.00	CARE BBB+; Stable / CARE A2	Reaffirmed
Short Term Bank Facilities	19.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Axtel Industries Limited (AIL) continues to derive strength from its established operational track record of more than two decades in manufacturing food processing machinery and equipment, reputed clientele, experienced promoters and its state-of-the-art manufacturing facility located in Halol (Gujarat). The ratings also takes cognizance of sustained growth in AIL's scale of operations during the past three years ended FY23 (FY refers to the period April 01 to March 31), its moderate profitability, comfortable financial risk profile and adequate liquidity.

The ratings, however, continue to remain constrained on account of linkage of AIL's prospects to capex cycle in end-user industries and inherent risk of fluctuation in profit margins to variation in raw material prices due to limited flexibility in re-pricing its customised orders.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in its total operating income (TOI) while maintaining its profitability.
- Sustaining the comfortable capital structure and debt coverage indicators at current levels.

Negative factors

- Decline in TOI and PBILDT margin 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.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE Ratings' expectations that AIL shall be able to sustain its credit risk profile on account of experienced promoters, its established position in manufacturing of machinery for FMCG industry and comfortable financial risk profile.

Detailed description of the key rating drivers:

Key strengths

Established operational track record with reputed clientele:

Over the last two decades, AIL has demonstrated strong design and manufacturing capability in providing customised process solutions in the food processing value chain to reputed Multinational Corporations (MNCs) in the Fast Moving Consumer Goods (FMCG) segment, both in domestic as well as overseas markets. AIL, as an Original Equipment Manufacturer (OEM) manufactures customised process engineering equipment and machineries from its state-of-the-art manufacturing facility at Halol, Gujarat with strategic partnership for other specialized operations. The promoters hold more than three decades of experience in the industry and are assisted by qualified Board of Directors and professionals.

Comfortable financial risk profile with no exposure to long term debt

AIL's capital structure continued to remain comfortable marked zero exposure to debt with nil gearing as on March 31, 2023 (0.01 times as on March 31, 2022). AIL continues to remain debt-free (on net-debt basis) and has low reliance on bank borrowings and its working capital requirements are met through internal accruals, advance from customers and availing credit from suppliers. The tangible net worth base stood at Rs.95.62 crore as on March 31, 2023 as against Rs.80.10 crore as on March 31, 2022.

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

The debt coverage indicators also remained healthy marked by PBILDT interest coverage of 21.80 times in FY23 (PY:39.27 times) and Total Outside Liabilities/ Tangible Net worth (TOL/TNW) at 0.93 times as on March 31, 2023 (PY: 0.69 times as on March 31, 2022).

Growth in scale of operations and moderate profitability

During FY23, AIL reported 24% y-o-y growth in its TOI to Rs.181.17 crore (PY: Rs. 145.72 crore). The growth in scale of operations is on account of execution of more orders along with healthy growth in installation income to Rs.13.11 crore in FY23 (PY: Rs. 5.74 crore). Considering majority of the production is order-backed with execution timeline being dependent upon the scope of work, size of the order and the level of customisation, AIL's TOI and profitability is largely a derivative of execution status of projects on hand.

During FY23 AIL's PBILDT and PAT margin remained largely stable at 13.14% and 9.55% (12.88% and 9.49%) respectively. Exports remained stable at around 11% (PY: 17%) to TOI during FY23.

During H1FY24 (provisional), AIL has reported 66% growth in its TOI to Rs. 70.55 crore (H1FY23: Rs.42.58 crore) with substantial improvement in PBILDT and PAT margin by 874 bps (to 25.09%) and 593 bps (to 16.90%) respectively in H1FY24. Further, as articulated by the management, AIL has a good order book to be executed in the near term.

Key weaknesses

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 and organized players in food processing value chain, hence it has a limited bargaining power in terms of ability to revise prices in case of steep variation 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.

Customer concentration risk

During FY23, top five customers contributed 63% of TOI (FY22: 61%), thereby reflecting customer concentration risk. However, AIL has been dealing with these customers since long which mitigates this risk to a certain extent.

Liquidity: Adequate

AIL's liquidity stood adequate characterised by healthy cushion in accruals, low reliance on bank borrowings for working capital requirements and healthy cash and bank position. The company has reported healthy growth in cash flow from operations in FY23 to Rs.29.19 crore (PY: -9.93 crore). As on March 31, 2023, AIL had free cash and bank balance (including liquid investments) of Rs.46.04 crore as on March 31, 2023 (PY: Rs.24.52 crore as on March 31, 2022) and Rs.43.36 crore as on September 30, 2023. The reliance on working capital limits stood low marked by average utilisation of fund-based limits at 10% during the trailing 12 months ended November 30, 2023. The current ratio and quick ratio remained comfortable at 1.89x and 1.37x (PY: 2.28x and 1.55x), respectively as on March 31, 2023.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks:

S. No	Particulars	Compliance and Action taken by the company
1	Environmental	<ul style="list-style-type: none"> The company has internal management system for employees for their health and safety. The company has internal manual to ensure safety and well-being of its employees and workers. Also, OHC (Occupational Health Centre) is under construction. Further, the company have celebrated National Safety Week to create safety awareness amongst the employees and workers of the Company in 4th March, 2023 to 10th March, 2023. The company being machine manufacturing company, all safety measures are in place and regularly monitored. Also, had provided HIRA (Hazard Identification & Risk Analysis) training to employees of the Company
2	Social	<ul style="list-style-type: none"> The company have processes in place to avoid/ manage conflict of interests involving members of the Board. The entity have procedures in place for sustainable sourcing to make supply chain more responsible and sustainable. The company procures approximate 56.22 % of our material locally and within state and target to increase local procurement to align with sustainable sourcing goals
3	Governance	<ul style="list-style-type: none"> The company has mechanism available to receive and redress grievances for the all the different categories of employees and worker.

S. No	Particulars	Compliance and Action taken by the company
		<ul style="list-style-type: none"> The company has policy for their employees and workers of providing them medical and healthcare services in case of any injury in the Company. Engagement with stakeholders on environmental, social and governance topics is carried out by the departments which are also responsible for engaging with the stakeholders continually.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the company and industry

Industry classification

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

Incorporated in 1991 as Advanced Extrafoil Technology and Exports Limited, AIL is engaged in manufacturing processing equipment, machineries and systems for food processing industry. AIL offers complete process plants as well as individual equipment in the food processing value chain from raw material reception to the final stages of processing to entities in confectionery, malted drinks, aqua feed, ready to eat foods, bakery & biscuits, dairy products, beverages, instant mixes, snack foods, spices, condiments & seasoning segment. 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 (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	145.72	181.17	70.55
PBILDT	18.78	23.81	17.70
PAT	13.83	17.30	11.92
Overall gearing (times)	0.01	0.00	0.00
Interest coverage (times)	39.27	21.80	49.17

A: Audited UA: Unaudited; 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 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ 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		-	-	-	18.65	CARE A2
Non-fund-based-Short Term		-	-	-	0.35	CARE A2

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 2023-2024	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
1	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	12.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (23-Feb-23)	1)CARE BBB+; Stable / CARE A2 (04-Feb-22)	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)
2	Non-fund-based - ST-BG/LC	ST	18.65	CARE A2	-	1)CARE A2 (23-Feb-23)	1)CARE A2 (04-Feb-22)	1)CARE A3+ (20-Jan-21) 2)CARE A3+ (26-Jun-20) 3)CARE A3+; ISSUER NOT COOPERATING* (28-Apr-20)
3	Non-fund-based-Short Term	ST	0.35	CARE A2	-	1)CARE A2 (23-Feb-23)	-	-

*Long term/Short term. * Issuer did not cooperate; based on best available information

Annexure-3: Detailed explanation of 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	Fund-based - LT/ ST-CC/Packing Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	Non-fund-based-Short Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: 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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