

Axtel Industries Limited

February 23, 2023

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	0.35	CARE A2	Assigned
Short Term Bank Facilities	18.65 (Enhanced from 8.00)	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 rating also takes cognizance of AIL's moderate scale of operations and profitability, comfortable financial risk profile and adequate liquidity.

The ratings, however, continue to remain constrained on linkages account of AIL's prospects to capex cycle in end-user industries and inherent risk of fluctuations in profit margins due to customized nature of sales with largely fixed price contracts.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in total operating income (TOI) by more than 10% with a subsequent increase in profitability

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.

Analytical approach: Standalone

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 capital structure and debt coverage indicators

AIL's capital structure remains comfortable marked by an overall gearing of 0.01 times as on March 31, 2022 (March 31, 2021: 0.01times). 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. TOL/TNW continued to remain below unity at 0.69 times on a tangible net worth base of Rs.80.10 crore as on March 31, 2022, as compared to 0.63 times on a tangible net worth of Rs.70.43 crore as on March 31, 2021.

Debt coverage indicators also continued to remain healthy marked by TDGCA and interest coverage of 0.02 x (March 31, 2021: 0.02 times) and interest coverage ratio of 39.27 times (March 31, 2021: 42.19 times) as on March 31, 2022.

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

Stable scale of operations and moderate profitability

AIL operates on a moderate basis and reported TOI of Rs.145.72 crore in FY22 (FY refers to the period April 01 to March 31) (FY21: Rs.154.61 crore). AIL's PBILDT and PAT margin moderated by 668 bps (to 12.88%) and 428 bps (to 9.49%) respectively in FY22 owing to lower absorption in fixed cost. Considering majority of the production is order-backed and execution timeline is dependent upon its 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. Exports remained stable at around 17% to TOI during FY22 (PY: 20%).

During 9MFY23 (provisional), AIL reported TOI, PBILDT and PAT of Rs.114.22 crore, Rs.10.99 crore and Rs. 6.21 crore respectively vis-à-vis Rs.91.52 crore, Rs.12.29 crore and Rs.7.02 crore in 9MFY22. Further, as articulated by the management, AIL has a good order book position in the near term.

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 increase in working capital intensity reflected by negative cash flow from operations in FY22 (PY: Rs. 24.53 crore) was funded by free cash and bank balance on hand. As on March 31, 2022, AIL had free cash and bank balance (including liquid investments) of Rs.24.25 crore as on March 31, 2022 (PY: Rs.42.14 crore as on March 31, 2021) and Rs.51.00 crore as on September 30, 2022. The reliance on working capital limits stood low marked by average utilisation of fund-based limits at 6% during the trailing 12 months ended December 31, 2022. The current ratio and quick ratio remained comfortable at 2.28x and 1.55x (PY: 2.42x and 1.85x), respectively as on March 31, 2022.

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 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 FY22, top five customers contributed around 63% to TOI (PY: 61%).

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](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

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).

Industry Classification

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

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (Provisional)
Total operating income	154.61	145.72	114.22
PBILDT	30.25	18.78	10.99
PAT	21.29	13.83	6.21
Overall gearing (times)	0.01	0.01	NA
Interest coverage (times)	42.19	39.27	17.44

A: Audited, NA: Not 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	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 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	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	12.00	CARE BBB+; Stable / CARE A2	-	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	-

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
							NOT COOPERATING* (28-Apr-20)	
2	Non-fund-based - ST-BG/LC	ST	18.65	CARE A2	-	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				

*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	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.

Contact us**Media contact**

Name: Mradul Mishra

Phone: +91-22-6754 3596

E-mail: mradul.mishra@careedge.in**Analyst contact**

Name: Ujjwal Manish Patel

Phone: +91-79-40265649

E-mail: ujjwal.patel@careedge.in**Relationship contact**

Name: Saikat Roy

Phone: +91-22-67543404

E-mail: saikat.roy@careedge.in**About us:**

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