Aksh Optifibre Ltd.

March 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities (Term Loan)	112.41	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Assigned**
Long Term Bank Facilities (Fund Based)	70.80	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Assigned**
Short Term Bank Facilities (Non-Fund Based)	183.79	**CARE A3+ (A Three Plus)**	**Assigned**
Total	**367.00 (Rs. Three Hundred Sixty Seven crore only)**		

* Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Aksh Optifibre Limited (AOL) derive strength from the company's long track record in optical fibre cables (OFC) industry, integrated nature of operations with presence in manufacturing of optical fibre (OF) and fibre reinforced plastic (FRP) rods, growing scale of operations backed by consistent increase in manufacturing capacities and improving profitability.

The rating, however, is constrained by support extended to the group entities, CARE also notes that exposure towards the group entities is not expected to increase going forward. In addition, elongated debtors' collection period and high working capital utilization are also limiting factors.

Going forward, the ability of the company to effectively manage its working capital, any new capex and its funding mix impacting the capital structure and performance of group entities would also be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established track record in the OFC industry

Incorporated in 1986, the company has over three-decades of long track record of operations in OFC industry. AOL manufactures OFC and is also backward integrated to manufacture OF and FRP rods, which leads to operational efficiencies.

The company started with the manufacturing of OF and OFC in 1994. In 1996-97 AOL acquired FRP business which is a key raw material for OFC. AOL went public in 2000 and is listed on NSE and BSE. The company also delivers to e-governance services through its programme 1 Stop Aksh with the government of Rajasthan. AOL is the largest producer of FRP in the world and caters approx 30% of the global FRP demand.

The present Chairman and Managing Director, Dr. Kailash S. Choudhari, is a key founding member of AOL. He is MBBS by qualification, gold medallist AIIMS. His father, Mr. Shantilal Choudhari, was the promoter of Choudhari Metal Industry (later on renamed CMI Limited) which specializes mainly in manufacturing of copper cables.

Integrated operations

Consistent increase in manufacturing capacities-to counter the decline in profitability in FY17 and subsequent steps taken by AOL to build efficiency through backward integration

AOL has been consistently enhancing its manufacturing capacities of its different product segments to secure better margins. The backward integration done by the company is strengthening the company's performance and provide operational efficiencies. The two key raw materials OF and FRP rods, constituting 70% of the total raw material cost of OFC are manufactured in-house.

AOL has undertaken sizeable debt-funded capex (including expansion of existing OF & OFC capacities and building up new capacities through newly formed subsidiaries) in last 2 years to enhance its manufacturing capacities of existing products and also in order to ensure continuous supply of fibre with the view on the rising demand of fibre. AOL ventured into a new product line-optical lens, while the new product has some synergy with the existing manufacturing capability, the company is focusing on the retail segment where it has limited prior experience.

Further, AOL has strategically located its international production facilities (all owned by various subsidiaries) which enables it to enhance its customer reach and provide global logistical advantage.

Additional debt not expected in future

AOL has already incurred the debt-funded capex and going forward the debt amount is expected to decrease with repayment of current debt and no new debt funded capex is expected in near future.

With most of the company's expansion projects already in place, company has shifted its focus on enhancing its operational efficiencies, with emphasis on expanding market share for all the product lines in which it operates which is reflected in AOL's half yearly FY19 performance.

Improved Financial Risk Profile

AOL's financial risk profile is marked by continuous growth in operating income, high profitability margins coupled with healthy order book position and comfortable debt coverage indicators.

Revenue: During FY18, AOL reported total operating income of Rs. 587.79 crore (P.Y: Rs. 463.44 crore), registering y-o-y growth of ~27%. The same was supported by increased overall capacities coupled with increased sales volume across all segments OF, OFC and FRP Rods.

Profitability: The PBILDT margin remained in line with growing scale of operations at 12.66% during FY18 as against 11.91% during FY17. PAT at Rs. 22.81 crore reported a significant increase of 66% as against Rs. 13.73 crore in FY17 on account of softening of prices of preform and OF. Further, the decline in PBILDT margins in FY17 was primarily due to upward revision in prices of key raw materials.

9MFY19: AOL registered 10% growth in total operating income in 9MFY19 to Rs. 458.25 crore as against 417.03 crore in 9MFY18. AOL has surpassed profits of full financial year of 2017-18 in nine month ended December 2018 due to various efficiencies and capacities built in by the company in last two financial years. AOL achieved PBILDT of Rs. 98.84 crore in 9MFY19 against the full year PBILDT of Rs. 74.42 crore in FY18 registering PBILDT margin of 21.57% in 9MFY19 (9MFY18: 11.50%) and PAT of Rs. 38.75 crore in 9MFY19 against the full year PAT of Rs. 22.81 crore in FY18 registering PAT margin of 8.45% in 9MFY19 (9MFY18: 3.30%).

Solvency: The debt-equity ratio of 0.34x as on March 31, 2018 as against 0.20x as on March 31, 2018. Overall gearing has moderated to 0.47x as on March 31, 2018 as against 0.28x as on March 31, 2017 on account of sizeable debt funded capex done to enhance its manufacturing capacities and also higher working capital limits primarily driven by ramping up of operations with increase in capacities raising the debt requirements. Further, the debt coverage indicators remained comfortable. The total debt to GCA increased marginally to 5.05x as on March 31, 2018 as against 4.25x as on March 31, 2017. Also, interest coverage ratio stood at 4.15x during FY18 (FY17: 4.11x).

Exposure to group companies: As on March 31, 2018, the total group exposure of AOL stood at Rs. 225.56 crore (P.Y: Rs. 196.98 crore). Further, AOL has extended corporate guarantee to its subsidiaries amounting to Rs. 31.29 crore as on March 31, 2018 and Rs. 93.94 crore as on December 31, 2018. The adjusted gearing after considering the same is 0.99x as on March 31, 2018 (P.Y: 0.53x) and 1.06x as on December 31, 2018.

Industry Outlook

AOL is supported by government focus in building infrastructure. With the GoI focused on increasing broadband penetration and digital India campaign, the industry's growth prospects seem healthy. The key initiatives of the government like Digital India, Smart Cities, and Make in India has led to rise in requirement for fibre connectivity, the Indian OFC volumes are expected to reach 35.93 million fibre-km by CY21 growing at a CAGR of over 13% during FY16-21. In tandem with this, the OF demand is also expected to grow.

Key Rating Weaknesses

Susceptibility of margins to volatility in raw material prices

AOL's business is raw material intensive with raw material costs forming majority of the total operating cost. The major raw materials include preform, OF, FRP rods and polyethylene compounds, etc. with preform forming majority of the total raw material costs which is fully imported.

However, with backward integration to manufacture OF and FRP rods the two key raw materials constituting 70% of the total raw material cost of OFC are manufactured in-house.

Liquidity

During FY18, the company has high average debtors' collection period of 114 days on account of higher transit period for export supplies and exposure (~30%) to government orders where the collection period usually remains high. The average working capital utilization for the last 12 months ending Jan-19 remains high at 89%.

Analytical approach: Standalone

However, the support extended by AOL to the subsidiaries has been factored in.

Applicable criteria:

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings

About the Company

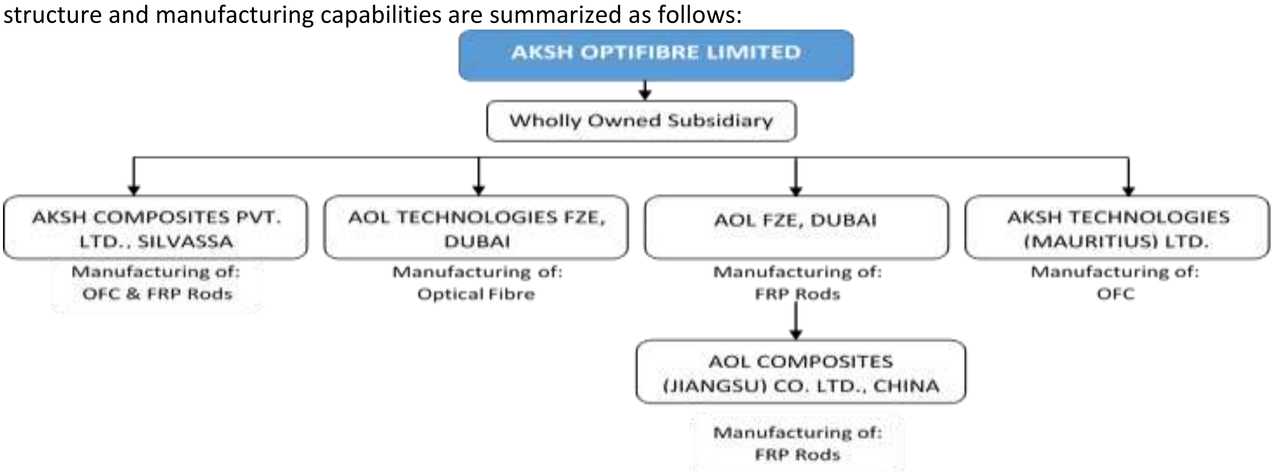
Aksh Optifibre Limited (AOL) was incorporated in March 1986 as a manufacturer of Poly Vinyl Chloride (PVC) and Polyethylene (PE) insulated specialty cables. In 1994, the company ventured into manufacturing of Optical Fibre Cables (OFCs) and did backward integration in 1995 by setting up a plant for Optical Fibre (OF) in Bhiwadi, Rajasthan. In 2000, AOL acquired Fibre Reinforced Plastic Rods (FRP rods) business which is a key raw material for OFC (mainly used at the strength membrane in OFC).

Product Profile: AOL manufactures OFC and is also backward integrated to manufacture OF and FRP rods which leads to operational efficiencies as the two key raw materials OF and FRP rods, constituting 70% of the total raw material cost of OFC are manufactured in-house. OF and OFC capacity is housed under one single manufacturing facility in Bhiwadi.

The company's operations are also diversified with the only ophthalmic lens manufacturing facility in the country commissioned in FY19. The company is also undertaking e-governance services, which includes 10,000 plus e-Governance kiosks in the state of Rajasthan and is also providing smart city/ turnkey solutions, which includes installation and managing of OFC turnkey of 350 kms in Jaipur smart city project. In FY18, OFC with 65% and FRP with 28% are the highest revenue contributors. Services contribute about 6% in revenue.

Manufacturing facilities: At present AOL along with its subsidiaries has manufacturing capacities per annum of 3.0 million kms for OF, 10.7 million kms for OFC, 3.8 million kms for FRP and Ophthalmic lens capacity of 25 mn pairs.

AOL also has four wholly owned subsidiaries out of which three being the foreign subsidiaries. The organizational structure and manufacturing capabilities are summarized as follows:



Brief Financials (Rs. crore)- Standalone	FY17 (A)	FY18 (A)
Total operating income	463.44	587.79
PBILDT	55.17	74.42
PAT	13.73	22.81
Overall gearing (times)	0.28	0.47
Interest coverage (times)	4.11	4.15

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

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

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.*

Analyst Contact:

Name: Manek Narang
Tel: 011- 45333233
Mobile: 9810596225
Email: manek.narang.careratings.com

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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-Term Loan	-	-	2025	112.41	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	70.80	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	183.79	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	112.41	CARE BBB; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	70.80	CARE BBB; Stable	-	-	-	-
3.	Non-fund-based - ST-BG/LC	ST	183.79	CARE A3+	-	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Ltd.)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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