

## Axtel Industries Limited

February 06, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term/ Short Term Bank Facilities	12.00	<b>CARE BBB; Stable/ CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)</b>	Reaffirmed
Short Term Bank Facilities	8.00	<b>CARE A3+ (A Three Plus)</b>	Reaffirmed
<b>Total facilities</b>	<b>20.00</b> <b>(Rupees Twenty crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Axtel Industries Limited (AIL) derives strength on account of healthy profit margins, comfortable capital structure, debt coverage indicators and liquidity position in FY17 (refers to the period from April 01 to March 31). Further, the ratings 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 association with the reputed clientele which are engaged into FMCG business moderate stable order book position.

The ratings, however, continue to remain constrained on account of moderate scale of operations, susceptibility of profit margins to raw material price fluctuations and customer concentration risk.

The ability of AIL to increase its operations further by timely execution of orders on hand and maintaining comfortable profit margins level, comfortable solvency position and debt protection metrics are the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Comfortable profit margins during FY17 (A)

During FY17, PBILDT margin of AIL continue to remain comfortable at 15.31% as against 15.71% in FY16. However, PAT margin of the company improved by 172 bps during FY17 and stood comfortable at 8.85% as against 7.12% during FY16 on account of decline in depreciation and interest cost. Resultantly, gross cash accruals of AIL improved by 19.39% y-o-y and stood comfortable at Rs.7.93 crore during FY17.

##### Comfortable capital structure and debt coverage indicators

As on March 31, 2017, capital structure of AIL further improved and stood comfortable on the back of low level of debt compared to higher net worth base.

The debt coverage indicators have also improved and stood comfortable as marked by total debt to gross cash accruals of 0.52 times as on March 31, 2017 as against 1.28 times as on March 31, 2016 on account of decrease in total debt as on March 31, 2017 along with increase in Gross cash accruals during FY17. Interest coverage ratio improved substantially and stood comfortable at 15.87 times for FY17 as against 7.45 times for FY16 due to decline in interest cost.

##### Comfortable liquidity position

Though operating cycle of AIL stood elongated at 94 days in FY17, overall liquidity position of AIL continues to remain at comfortable level. Average working capital utilization for trailing 12 month period ended November 2017 stood low at 12% as AIL has been managing its working capital from internal accruals.

##### Experienced promoters and its established operational track record with presence of well known customers

AIL is operating into food processing machinery manufacturing industry since 1991 and promoters holds more than two decades of experience into same line of business. Over the period, it has developed strong business presence and established well known customer base across FMCG segment in its portfolio.

### Key Rating Weaknesses

#### Moderate scale of operations

During FY17, AIL registered growth of 14.64% in its Total Operating Income which stood at Rs.77.26 crore as against Rs.67.40 crore during FY16 on the back of increase in demand for its products coupled with addition of new customers in its portfolio.

#### Susceptibility of profit margins to raw material price fluctuations

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

AIL's profit margins remains susceptible due to changes in prices of its key raw materials such as steel, components in case of its inability to pass on the same to end customers.

**Customer concentration risk**

Top five customers contributed 65% of Total Operating Income during FY17 thereby reflecting customer concentration risk. However, AIL has been dealing with these customers since long which mitigates this risk to a certain extent.

**Analytical Approach:** Standalone

**Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[CARE's methodology for manufacturing companies](#)

[Financial Ratios - Non-Financial Sector](#)

**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)	FY16 (A)	FY17 (A)
Total operating income	67.40	77.26
PBILDT	10.59	11.83
PAT	4.80	6.83
Overall gearing (times)	0.34	0.13
Interest coverage (times)	7.45	15.86

A: Audited

During H1FY18 (Provisional), AIL achieved TOI of Rs Rs.37.18 crore.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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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	-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	12.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-BG/LC	-	-	-	8.00	CARE A3+; Stable

**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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB; Stable / (20-Mar-17)	1)CARE BBB- (08-Jan-16)	1)CARE BBB- (07-Oct-14)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	12.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (20-Mar-17)	1)CARE BBB- / CARE A3 (08-Jan-16)	1)CARE BBB- / CARE A3 (07-Oct-14)
3.	Non-fund-based - ST-BG/LC	ST	8.00	CARE A3+; Stable	-	1)CARE BBB; Stable / CARE A3+ (20-Mar-17)	1)CARE BBB- / CARE A3 (08-Jan-16)	1)CARE BBB- / CARE A3 (07-Oct-14)

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