

**Axtel Industries Limited** <sup>(Revised)</sup>  
**March 1, 2019**

**Ratings**

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

*Details of instruments/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 and growing scale of operations and its overall financial risk profile marked by comfortable profit margins, capital structure and debt coverage indicators along with comfortable liquidity position in FY18 (refers to the period 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 operations of more than two decades and reputed clientele in its portfolio.*

*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.*

*The ability of AIL to further increase its scale of operations while maintaining its comfortable profit margins and solvency position along with an improvement in its working capital requirement are the key rating sensitivities.*

**Outlook: Positive**

The outlook is revised to 'Positive' from 'Stable' 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.

**Detailed description of the key rating drivers****Key Rating Strengths****Moderate scale of operations with comfortable profit margins**

The scale of operations of AIL, marked by Total Operating Income (TOI) increased to Rs.82.21 crore during FY18 from Rs.77.26 crore during FY17. Further, PBILDT margin continued to remain comfortable, albeit declined by 216 bps y-o-y and remained comfortable at 13.15% during FY18. Subsequently, PAT margin of the company continued to remain comfortable at 7.22% during FY18 as against 8.85% during FY17. Further, during 9MFY19 (Unaudited), the TOI, PBILDT and PBT remained at Rs.82 crore, Rs.15 crore and Rs.12.65 crore respectively.

**Comfortable capital structure and debt coverage indicators**

As on March 31, 2018, capital structure of AIL continued to remain comfortable as marked by an overall gearing ratio of 0.10 times against 0.14 times as on March 31, 2017. Debt coverage indicators of AIL also continued to remain comfortable as marked by total debt to gross cash accruals (TDGCA) of 0.51 times as on March 31, 2018 and interest coverage ratio of 21.45 times for FY18.

**Comfortable liquidity position**

Liquidity position of AIL remained comfortable marked by moderate current ratio of 1.29 times as on March 31, 2018. The average utilization of working capital borrowings remained below 10% for the past 12 months period ended January, 2019. Furthermore, net cash flow from operating activities remained comfortable at Rs.12.04 crore in FY18 while the unencumbered cash & bank balance stood at Rs.3.03 crore as on March 31, 2018. AIL also held current investment of Rs.14.22 crore as on March 31, 2018.

**Experienced promoters and established operational track record with reputed clientele**

AIL is operational in this industry since 1991, while the promoters hold more than two decades of experience into same line of business. Over the period, AIL has developed strong business presence and established well known customer base

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

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***

All's customer portfolio consists of very large organized players in their respective industries; 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 price contracts with its suppliers for supply of raw materials; thus faces uncertainty with respect to volatility in price of raw materials. Furthermore, top five customers contribute ~74% to TOI during FY18; thereby reflecting customer concentration risk.

#### ***Moderately elongated operating cycle***

Working capital cycle of AIL remained moderately elongated at 81 days in FY18 as compared to 94 days in FY17 mainly on account of increase in average creditor's period during FY18. Gross current asset days remained at 159 during FY18. This is because of extended credit period offered to its customers and inventory holding. However, majority of the said working capital is being funded through internal accruals of the company.

**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

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)	FY17 (A)	FY18 (A)
Total operating income	77.26	82.21
PBILDT	11.83	10.81
PAT	6.84	5.93
Overall gearing (times)	0.14	0.10
Interest coverage (times)	15.86	21.45

A: Audited

During 9MFY19 (Prov.), AIL has registered TOI of Rs.82 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:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit

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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/ 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 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	-	-	-	1)Withdrawn (06-Feb-18)	1)CARE BBB; Stable (20-Mar-17)	1)CARE BBB- (08-Jan-16)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	12.00	CARE BBB; Positive / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (06-Feb-18)	1)CARE BBB; Stable / CARE A3+ (20-Mar-17)	1)CARE BBB- / CARE A3 (08-Jan-16)
3.	Non-fund-based - ST-BG/LC	ST	8.00	CARE A3+	-	1)CARE A3+; Stable (06-Feb-18)	1)CARE BBB; Stable / CARE A3+ (20-Mar-17)	1)CARE BBB- / CARE A3 (08-Jan-16)

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