

Axtel Industries Limited

March 20, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	2.25 (reduced from 6.75)	CARE BBB; Stable [Triple B; Outlook: Stable]	Revised from CARE BBB- [Triple B Minus]
Long-term/Short-term Bank Facilities	20.00 (enhanced from 16.00)	CARE BBB; Stable/CARE A3+ [Triple B; Outlook: Stable/A Three Plus]	Revised from CARE BBB-/CARE A3 [Triple B Minus /A Three]
Total	22.25 (Rupees Twenty Two crore and Twenty Five lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale and key rating drivers

The revision in the ratings assigned to Axtel Industries Limited (AIL) factors in the growth in income, improvement in its operating profit margins and consequent improvement in its cash accruals & debt coverage indicators.

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 that includes leading Indian and international companies engaged in FMCG business.

The ratings also take into account the comfortable leverage as on March 31, 2016, and moderate order book position.

The ratings, however, continue to remain constrained on account of AIL's modest scale of operations, susceptibility of profit margins to raw material price fluctuations, customer concentration risk and elongated operating cycle.

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

Healthy growth in total operating income and profitability

During FY16 (refers to the period April 1 to March 31), AIL's TOI improved by 67.70% to Rs.67.35 crore from Rs.40.16 crore in FY15 on the back of improvement in number of orders executed as well as addition of new clients in its portfolio. Overall, profit margins improved and stood comfortable during FY16 marked by PBILDT margin of 15.65% and PAT margin of 7.13%.

Improvement in solvency position, debt coverage indicators and liquidity position

The solvency position of AIL improved as on March 31, 2016, reflected by an overall gearing of 0.34 times (0.49 times as on March 31, 2015) on the back of schedule repayment of its term loan and improvement in net worth position owing to accretion of healthy profits to reserves. Furthermore, with improvement in cash accruals and decline in debt level, total debt to GCA stood comfortable at 1.28x as on March 31, 2016, while interest coverage ratio stood at 7.68x during FY16. Liquidity position also improved marked by operating cycle of 109 days in FY16 (159 days in FY15) and current ratio of 1.51 times and quick ratio of 0.97 times as on March 31, 2016 as against current ratio of 1.25 times and quick ratio of 0.73 times as on March 31, 2015.

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

AIL is operating into this 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

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Moderate scale of operations

Despite long track record of operations, AIL's scale of operations stood at moderate level marked by TOI of Rs.67.35 crore in FY16.

Susceptibility of profit margins to raw material price fluctuations

AIL's customers are 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 it faces uncertainty with respect to price of raw materials.

Customer concentration risk and elongated operating cycle

Top five customers contributed 59% of TOI during FY16 thereby reflecting customer concentration risk. However, the same proportion has reduced from 71% in FY14. Operating cycle although improved from 159 days in FY15 to 109 days in FY16, it continue to remain elongated considering nature of operations of the company as it has to maintain high inventory level.

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.

During FY16, AIL has reported a PAT of Rs.4.80 crore on a total operating income of Rs.67.35 crore as against net loss of Rs.7.54 crore on a total operating income of Rs.40.16 crore in FY15. During 9MFY17 (refers to the period April 1, 2016 to December 31, 2016), AIL has reported a PAT of Rs.4.19 crore on total operating income of Rs.47.60 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. Investors/market intermediaries/regulators or others are welcome to write to 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 Assessment Institution (ECAI)* by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market

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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	-	-	December, 2017	2.25	CARE BBB; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	12.00	CARE BBB; Stable / CARE A3+
Non-fund-based - LT/ ST-BG/LC	-	-	-	8.00	CARE BBB; Stable / 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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	2.25	CARE BBB; Stable	-	1)CARE BBB-(08-Jan-16)	1)CARE BBB-(07-Oct-14)	1)CARE BBB (03-Oct-13)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	12.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB- / CARE A3 (08-Jan-16)	1)CARE BBB- / CARE A3 (07-Oct-14)	1)CARE BBB / CARE A3+ (03-Oct-13)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	8.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB- / CARE A3 (08-Jan-16)	1)CARE BBB- / CARE A3 (07-Oct-14)	1)CARE BBB / CARE A3+ (03-Oct-13)

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