Axtel Industries Limited

June 26, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term/ Short Term Bank Facilities	12.00	**CARE BBB; Stable/ CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)**	Reaffirmed and removed from Issuer Not cooperating
Short Term Bank Facilities	8.00	**CARE A3+ (A Three Plus)**	Reaffirmed and removed from Issuer Not cooperating
Total	**20.00 (Rupees Twenty crore only)**		

Details of facilities in Annexure -1

In the absence of minimum information required for the purpose of rating, CARE was unable to express an opinion on the ratings of Axtel Industries Limited (AIL) and in line with the extant SEBI guidelines, CARE had reaffirmed the ratings and revised the outlook of bank facilities of the company to 'CARE BBB; Stable; ISSUER NOT COOPERATING' and 'CARE A3+; ISSUER NOT COOPERATING' from 'CARE BBB; Positive/ CARE A3+'. However, the company has now submitted the requisite information to CARE. CARE has carried out a full review of the ratings and the ratings stand at 'CARE BBB; Stable/ CARE A3+'.

Detailed Rationale and key rating drivers

The ratings assigned to the bank facilities of Axtel Industries Limited (AIL) continue to derive strength from moderate scale of operations and its above average financial risk profile marked by comfortable profit margins, capital structure and debt coverage indicators in FY19 (FY; refers to the period April 1 to March 31) and 9MFY20. The ratings, further, 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 of susceptibility of profit margins to volatility in raw material prices, customer concentration risk and moderately elongated operating cycle.

Rating Sensitivities

Positive Factors

- *Sustained growth in total operating income (TOI) of more than 20% with prevailing level of profit margins*
- *Sustainability of capital structure and debt coverage indicators at current level*

Negative Factors

- *Decline in total operating income and PBILDT by more than 30%*
- *Deterioration in debt coverage indicators with total debt to gross cash accruals (TDGCA) of higher than a year with an overall deterioration in liquidity profile*

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 TOI increased to Rs.113.47 crore in FY19 as against Rs.82.21 crore in FY18 on the back of increase in demand from its existing as well as new customers. Further, PBILDT margin improved and continued to remain comfortable at 19.91% during FY19 from 13.15% during FY18 owing to high profit yielding contracts executed during the year along with proportionate decrease in employee, labour and job work charges during FY19. Resultantly, PAT margin also continued to remain comfortable at 11.42% during FY19 as against 7.22% during FY18. Further, during 9MFY20 (Unaudited), the TOI, PBILDT and PAT remained at Rs.78.56 crore, Rs.14.27 crore and Rs.8.60 crore respectively.

Comfortable capital structure and debt coverage indicators

The capital structure as marked by overall gearing ratio continued to comfortable at 0.02 times as on March 31, 2019 as against 0.10 times as on March 31, 2018 owing to absence of outstanding working capital bank borrowings as on balance sheet date as the company relies higher on internal accruals during the year, while it also has a healthy tangible net worth

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

base. Debt coverage indicators of AIL also continued to remain comfortable as marked by TDGCA of 0.07 years as on March 31, 2019 and interest coverage ratio of 46.99 times for FY19.

Experienced promoters and established operational track record with reputed clientele
AIL is operational in this industry since 1991, while the promoters hold more than three decades of experience into same line of business. Over the period, AIL has developed strong business presence and established well known customer base 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
AIL'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, customer concentration risk also persists as top five customers contribute ~52% to TOI during FY19 as compared to ~74% to TOI during FY18.

Moderately elongated operating cycle
Operating cycle remained at 77 days during FY19 as against 81 days during FY18. The Gross Current asset days remained at 142 against creditors of 65 days during FY19. However, the average utilization of working capital borrowings remained miniscule as the working capital requirement is largely being funded from its healthy internal accruals.

Impact of COVID-19 on business operations of AIL
Being into food processing equipment manufacturing industry with reputed client profile there was no major impact on the business operations of AIL due to COVID-19 pandemic. However, the operations have been halted from March 22, 2020 to April 22, 2020 due to nation-wide lockdown. Once AIL resumed operations from April 23, 2020, it has not faced any major labour shortages and currently it is operating with 100% labour availability while it is also receiving regular orders from domestic as well as overseas customers and receiving payments from its customers in a timely manner.
Overall, due to COVID-19 led disruption in the domestic and world economies and envisaged moderation in the economic activities and GDP during FY21, the achievement of growth in the scale of operations and envisaged level of profitability margins would remain key rating sensitivities.

Liquidity: Adequate
Liquidity position of AIL remained adequate marked by moderate current ratio of 1.60 times as on March 31, 2019 while the average utilization of fund-based working capital borrowings remained miniscule at around 2.70%, whereas utilization of non-fund based limit had remained at 80% during past 12 months ended March, 2020. Furthermore, unencumbered cash & bank balance and mutual fund investment had remained comfortable at Rs.18.21 crore as on March 31, 2019. Moreover, AIL has reported net cash flow from operations of Rs.11.01 crore during FY19 and as against GCA level of Rs.15.61 crore in FY19 its debt repayments remained low at Rs.0.24 crore during FY20 which was towards vehicle loan.
Moreover, AIL has not availed a moratorium on its scheduled debt repayments & interest servicing on its working capital facility from its lender under the COVID-19 – Regulatory Package announced by Reserve Bank of India. Further, with the recent relaxation of the lockdown, the manufacturing plant of the company resumed operations from April 23 2020 and hence, the pressure on its liquidity profile due to COVID-19 pandemic looks less likely.

Analytical Approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments
Policy on curing period
Liquidity analysis of Non-financial sector entities
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)	FY18 (A)	FY19 (A)
Total operating income	82.21	113.47
PBILDT	10.81	22.59
PAT	5.93	12.96
Overall gearing (times)	0.10	0.02
Interest coverage (times)	21.45	46.99

A: Audited

Till 9MFY20 (Un-audited) AIL reported TOI of Rs.78.56 crore with a PAT of Rs.8.60 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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; Stable / 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (06-Feb-18)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	12.00	CARE BBB; Stable / CARE A3+	1)CARE BBB; Stable / CARE A3+; ISSUER NOT COOPERATING* (28-Apr-20)	-	1)CARE BBB; Positive / CARE A3+ (01-Mar-19)	1)CARE BBB; Stable / CARE A3+ (06-Feb-18)
3.	Non-fund-based - ST-BG/LC	ST	8.00	CARE A3+	1)CARE A3+; ISSUER NOT COOPERATING* (28-Apr-20)	-	1)CARE A3+ (01-Mar-19)	1)CARE A3+; Stable (06-Feb-18)

***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 built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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