

Press Release

Azad Industries

September 19, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as **SMERA B plus**) on the Rs. 10.00 crore bank facilities of Azad Industries. The outlook is '**Stable**'.

Azad Industries (AI) is a Maharashtra-based proprietary concern established in 1996. Promoted by Mr. Rajendra Chauhan, the entity is engaged in the manufacture of industrial fabric - wrapper and decatising cloth, technical textile, woven filters bags, monofilament filter clothes among others. AI has its own yarn processing facilities with production capacity of 2000 meters per day.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

AI, established in 1996 is a Maharashtra-based proprietorship concern. The promoter, Mr. Rajendra Chauhan has experience of more than two decades in a similar line of business. AI is engaged in the manufacture of industrial fabrics widely used across industries including textile and chemicals. AI sells industrial fabric mainly through dealers and agents across India. In FY2017 the firm registered revenue of Rs.15.00 crore (Provisional) as against Rs.11.89 crore in FY2016. SMERA believes that AI will continue to benefit from its proprietor's experience in the manufacture of industrial fabrics and healthy relations with customers and suppliers.

- **Healthy operating profitability**

AI has reported operating margin (EBITDA) of 15.33 per cent in FY2017 (Provisional) as against 16.47 percent FY2016. SMERA believes that the operating margins will remain healthy on the back of addition of value added products.

Weaknesses

- **Moderate scale of operations**

AI has moderate scale of operations marked by operating income of Rs.11.89 crore for FY2016 as against Rs.9.09 crore for FY2015 and Rs.7.06 crore for FY2014. Further, it has reported operating income of Rs.15.00 crore for FY2017 (Provisional). The revenue grew at a CAGR of ~29.00 percent during FY2014 to FY2017. The growth in operating income is on account of increase in sales volumes.

- **Average financial risk profile**

AI has networth of Rs.1.40 crore as on 31 March, 2016 as against Rs.0.93 crore as on 31 March, 2015. The gearing (Debt-to-equity) stood at 3.76 times as on 31 March, 2016 against 4.22 times as on 31 March, 2015. The total debt of Rs.5.28 crore mainly comprises term loan of Rs.2.62 crore, working capital borrowings of Rs.1.53 crore and unsecured loan raised through promoters of Rs.1.13 crore which is not subordinated, hence treated as debt. The coverage indicators stood moderate with ICR (Interest coverage ratio) of 2.96 times for FY2016 as against 2.17 times for FY2015. The NCA/TD stood at 0.25 times for FY2016 against 0.19 times in the previous year. AI plans to undertake a debt

funded capex of Rs.3.10 crore to be funded by a term loan of Rs.3.08 crore for purchase of land and machinery which is expected to affect its financial risk profile in the medium term.

• **Working capital intensive operations**

AI has working capital intensive operations marked by GCA days of 127 for FY2016 against 123 for FY2015. This is mainly on account of inventory of 60 and debtor days of 67 for FY2016. The inventory days stood high on account of excess of raw material stored for production. Further, the average utilisation of working capital borrowing stood at ~100.00 percent for the past six months till June 2017. SMERA believes that in view of the working capital intensive operations, elongation in working capital cycle will require additional funding support to maintain a stable liquidity profile.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of AI.

Outlook: Stable

SMERA believes that AI will maintain a Stable outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case the firm registers more than expected growth in revenues while achieving improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its financial risk profile.

About the Rated Entity - Key Financials

For FY2015-16, the firm reported net profit of Rs.0.69 crore on operating income of Rs.11.89 crore compared with net profit of Rs.0.39 crore on operating income of Rs.9.09 crore in FY2014-15. The net worth stood at Rs.1.40 crore as on 31 March, 2016 as against Rs.0.93 crore a year earlier.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.60	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.91	SMERA B+ / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.10	SMERA B+ / Stable
Proposed	Not Applicable	Not	Not	2.45	SMERA B+ / Stable

Term Loan		Applicable	Applicable		
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	0.62	SMERA B+ / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.32	SMERA B+ / Stable

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