

Press Release

Azad Industries

December 24, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and has assigned short term rating of '**ACUITE A4**' (**read as ACUITE A four**) 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.

Analytical Approach

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

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. Acuité 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 19.02 per cent in FY2018 as against 15.21 percent FY2017. Acuité believes that the operating margins will remain healthy on the back of addition of value added products.

Weaknesses

- **Modest scale of operations**

There has been a decline in firms operating income from Rs.15.05 crore in FY 2017 to Rs.14.06 crore. Further, it has reported an operating income of Rs.13.00 crore for April to November 2018. Acuité believes that scaling up operations while maintaining profitability will remain a key rating sensitivity.

- **Average financial risk profile**

Firm's financial risk profile has remained average on account of low networth, high gearing and moderate debt protection metrics. Tangible networth stood at Rs.2.81 crore as on 31 March, 2018 as against Rs.2.01 crore as on 31 March, 2017. The gearing (Debt-to-equity) increased to 3.10 times as on 31 March, 2018 against 2.66 times as on 31 March, 2017. The total debt of Rs.8.71 crore mainly comprises term loan of Rs.3.85 crore, unsecured loans from promoters of Rs. 1.84 crore and working capital borrowings of Rs3.01 crore. The coverage indicators stood moderate with ICR (Interest coverage ratio) of 2.71 times for FY2018 as against 2.86 times for FY2017. The NCA/TD stood at 0.19 times for FY2018 against 0.28 times in the previous year.

• **Working capital intensive operations**

AI has working capital intensive operations marked by GCA days of 172 for FY2018 an increase from 132 for FY2017. This is mainly on account of high inventory holding period of 87 days an increase from 42 days in PY. The inventory days stood high on account of excess of raw material stored for production. The collection period increased to 91 days in FY2018 from 81 days in PY. Further, the average utilisation of working capital borrowing stood at ~90-95.00 percent for the past six months till November 2018. Acuité 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.

Outlook: Stable

Acuité believes that Azad Industries will maintain a 'Stable' outlook in the medium term on account of its established presence, experienced promoter, reputed clientele and healthy profitability. The outlook may be revised to 'Positive' in case of higher-than-expected revenues while sustaining the profitability and improving the capital structure and liquidity. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	14.06	15.05	11.93
EBITDA	Rs. Cr.	2.67	2.29	1.98
PAT	Rs. Cr.	0.68	0.85	0.69
EBITDA Margin	(%)	19.02	15.21	16.60
PAT Margin	(%)	4.83	5.66	5.76
ROCE	(%)	17.64	23.55	40.32
Total Debt/Tangible Net Worth	Times	3.10	2.66	3.76
PBDIT/Interest	Times	2.71	2.86	3.00
Total Debt/PBDIT	Times	3.26	2.34	2.67
Gross Current Assets (Days)	Days	172	132	129

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

None

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-Oct-2018	Cash Credit	Long Term	INR 1.6	ACUITE B+ (Indicative)
	Term Loan	Long Term	INR 0.91	ACUITE B+ (Indicative)
	Proposed Cash Credit	Long Term	INR 3.1	ACUITE B+ (Indicative)

	Proposed Term Loan	Long Term	INR 2.45	ACUITE B+ (Indicative)
	Proposed Term Loan	Long Term	INR 0.62	ACUITE B+ (Indicative)
	Proposed Bank Facility	Long Term	INR 1.32	ACUITE B+ (Indicative)
19-Sep-2017	Cash Credit	Long Term	INR 1.6	ACUITE B+ / Stable (Assigned)
	Term Loan	Long Term	INR 0.91	ACUITE B+ / Stable (Assigned)
	Proposed Cash Credit	Long Term	INR 3.1	ACUITE B+ / Stable (Assigned)
	Proposed Term Loan	Long Term	INR 2.45	ACUITE B+ / Stable (Assigned)
	Proposed Term Loan	Long Term	INR 0.62	ACUITE B+ / Stable (Assigned)
	Proposed Bank Facility	Long Term	INR 1.32	ACUITE B+ / Stable (Assigned)

***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	3.10	ACUITE B+ / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.41	ACUITE B+ / Stable (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.49	ACUITE B+ / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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