

Press Release**ASTER INDUSTRIES**

December 12, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 11.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as **SMERA BB minus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 11.00 crore bank facilities of ASTER INDUSTRIES. The outlook is '**Stable**'.

Aster Industries (AI), established in 1998 by Mr. T. Srinivas Reddy, is engaged in the manufacturing of bulk drugs, drug intermediaries and chemical compounds. The manufacturing unit is located at Yadadri district, Telangana and has installed capacity of 240 MT per annum.

Key Rating Drivers**Strengths**

- **Healthy track record of operations, experienced management**

AI, a partnership firm was established in 1998 by Mr. Srinivas Reddy, Partner who possesses around three decades of experience in the pharmaceutical industry. He is joined by other Partners, Mr. Ramaraju, Mr. T Bharath Reddy and others who also have substantial experience.

- **Moderate risk profile**

The financial risk profile is moderate marked by net worth of Rs. 4.44 crore as on 31 March, 2017 compared to Rs.2.19 crore as on 31 March, 2016. The gearing stood at 0.35 times as on 31 March, 2017 as against 1.08 in the previous year. The interest coverage ratio (ICR) stood at 7.50 times in FY2017 and 4.42 times in FY2016. The Debt service coverage ratio (DSCR) stood at 6.11 times in FY2017 compared to 3.68 times in FY2016. SMERA expects that the gearing will remain moderate in the medium term on account of additional debt funded capex.

Weaknesses

- **Risks related to ongoing capex in Vishakhapatnam**

AI has large debt funded capex plan in FY2018-FY2019. The firm is planning to set up a drug manufacturing unit in Vishakhapatnam at an estimated cost of Rs.16.02 crore, to be funded through promoter funds of Rs 8.52 crore and term loan of Rs 7.50 crore. The installed capacity of the plant is 50 tons per month. As a result, the firm is exposed to significant project execution risk in case of time and cost overruns or delay in debt tie-up.

- **Working capital intensive operations**

The operations are working capital intensive with Gross Current Asset (GCA) days of 235 in FY2017 and 164 in FY2016. The GCA days have been high on account of high debtor days of 134 in FY2017. The inventory days increased to 25 in FY2017 from 11 in FY2016. The average bank limit utilisation stood high at 95 percent during the past six months ended October 2017.

- **Moderate scale of operations**

~~Despite operations commencing in 1998, the scale is moderate. The firm registered revenue of Rs.13.56~~

crore in FY2017 and Rs.13.72 crore in FY2016. SMERA believes that the scale of operations will increase in the medium term subsequent to the capex undertaken. The new facility is expected to be operational by October 2018.

• Client concentration risk

Since the firm generates around 76.54 percent revenue from its top two clients - Rakshit Drugs Private Limited and Esschem Overseas Private Limited, it is exposed to client concentration risk. The firm's ability to have a diversified clientbase will be a key rating sensitivity.

Analytical Approach

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

Outlook: Stable

SMERA believes that AI will maintain a stable outlook and continue to benefit over the medium term from its promoters' extensive experience. The outlook may be revised to 'Positive' in case of improvement in working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of significant time or cost overruns, decline in profitability margins or deterioration in the capital structure due to further stretch in working capital cycle.

About the Rated Entity - Key Financials

For FY2016-17, AI reported profit after tax (PAT) of Rs. 0.46 crore on operating income of Rs.13.56 crore compared with PAT of Rs.0.35 crore on operating income of Rs.13.72 crore for FY2015-16. The net worth stood at Rs. 4.44 crore for FY2016-17 compared to Rs. 2.19 crore in FY2015-16.

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
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	7.50	SMERA BB- / Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A4

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Naveen Papisetty Analyst - Rating Operations Tel: 022-67141148 naveen.papisetty@smera.in	

ABOUT SMERA

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