

## Press Release

Aster Industries

February 20, 2019



### Rating Reaffirmed, withdrawn and Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 11.00 Cr.
<b>Long Term Rating</b>	ACUITE BB- / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A4 (Withdrawn)

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs. 4.00 crore and assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs. 7.00 crore bank facilities of Aster Industries (AI). The outlook is '**Stable**'.

The reaffirmation of the rating reflects modest scale of operations while being working capital intensive. Revenues of the firm are modest at about Rs.12.00 crore, though marginally declined in FY2018. Further, the operations are working capital intensive due to stretch in debtors. However, the ratings continue to reflect AI's experienced management, long track record of operations and comfortable financial risk profile.

AI was established in 1998 as a partnership firm by Mr. T. Srinivas Reddy (Managing Partner). AI is engaged in the business of manufacturing of bulk drugs, drug intermediaries and chemical compounds. The firm has manufacturing facility at Yadagiri district in Telangana and the firm is setting up a new manufacturing unit in Vishakhapatnam.

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of AI to arrive at this rating.

### Key Rating Drivers

#### Strengths

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

AI was established in 1998 as a partnership firm by Mr. Srinivas Reddy and family who possess about three decades of experience in the pharmaceutical industry. Long track record of operations and experience of the promoters have helped the firm in maintaining healthy relationship of over a decade with the clientele and suppliers. The firm supplies its products to customers, namely, Rakshit Drugs Private Limited, Esschem Overseas Private Limited and V N Pharma, among others. To overcome the capacity constraints at the current plant, the firm is implementing a large debt-funded capex to setup a manufacturing unit at Visakhapatnam. The unit is expected to be operational by around first quarter of FY2019. Acuité believes that the firm is expected to benefit from the long track record of operations of the management, and operational synergies from the new unit upon being operational.

- **Comfortable financial risk profile**

The firm has a comfortable financial risk profile which is marked by comfortable gearing (debt-equity), total outside liabilities to total net worth (TOL/TNW), and debt protections metrics though partly constrained by modest net worth. Gearing is comfortable at 0.88 times as on 31 March, 2018 as against 0.35 times as on 31 March, 2017. TOL/TNW is comfortable at 1.59 times as on 31 March, 2018 as against 1.53 times as on 31 March, 2017. Net worth is modest at Rs.6.07 crore as on 31 March, 2018 as against Rs.4.44 crore as on 31 March, 2017. Of the total debt of Rs.5.35 crore as on 31 March, 2018, long term debt constitutes Rs.2.15 crore and short term debt of Rs.3.20 crore. The firm is implementing a large debt-funded capex of Rs. 16.00 crore for over two years; the same is funded out of term loan of Rs.7.00 crore, and balance out of promoters' funds and internal accruals. Despite the capex, the capital structure is expected to be at comfortable levels. Debt protection metrics of interest coverage ratio and net cash

accruals to total debt are comfortable at 3.14 times and 0.21 times respectively in FY2018. Acuité believes that with adequate accruals to service its debt obligations, the financial risk profile is expected to be at similar levels over the medium term.

## Weaknesses

### • Modest scale of operations

Though the firm has been in existence for nearly two decades, operations remained modest with revenues of about Rs. 11.56 crore in FY2018 as against Rs. 13.56 crore in FY2017 and Rs. 13.72 crore in FY2016. The firm is setting up a new manufacturing plant in Visakhapatnam to expand the capacity as well as product portfolio; the plant is likely to be ready for commercial operations by around first quarter of FY2020. Despite the same and revenues to improve to about Rs.25-30 crores over the medium term, the revenue profile continues to be modest in the pharma industry. Acuité believes that the ability of the firm to increase the scale of operations would be the key rating sensitivity factor over the medium term.

### • Working capital intensive operations

Operations of the firm are working capital intensive marked by moderate gross current asset (GCA) of 189 days for FY 2018 as compared 178 days for FY 2017. This is on account of high debtors of 149 days in FY2018 as against 134 days in FY2017. The same led to full utilisation of bank lines for the last six months through January 2018. However, inventory cycle is comfortable at around one month for the last two years through FY2018. Acuité believes that the operations continue to be working capital intensive at similar levels over the medium term.

### • Intense competition in the industry

AI operates in a highly fragmented industry with limited entry barriers wherein the presence of a large number of players in the unorganised sector limits its bargaining power with customers.

## Liquidity Position:

Liquidity of AI is moderate marked by moderate cash accruals against repayment obligations. It has reported cash accruals of Rs.1.12 crore in FY2018. Its expected cash accruals are in the range of Rs.1.10-2.50 crore over the medium term against which its repayment obligations are about Rs.0.66-1.80 crore. The firm is implementing debt-funded capex of Rs.16.00 crore out of term loan of Rs.7.00 crore from the Bank, Rs.2.00 crore from NBFC and balance out of internal accruals and capital infusion. Promoters have infused nearly Rs.4.00 crore over the past three years towards the capex which kept the liquidity moderate. Operations are working capital intensive due to high debtors, the same led to full utilisation of its bank lines; this coupled with large capex lead to weak current ratio. Acuité believes that regular infusion of equity and moderate accruals to service debt obligations, the liquidity profile continues to be moderate over the medium term.

## Outlook: Stable

Acuité believes that AI will maintain 'Stable' outlook in the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'positive' if the firm registers higher than expected growth in revenues with early stabilisation of its operations at its new plant while maintaining stable profitability. Conversely, the outlook may be revised to negative in case of any further stretch in its working capital cycle or time and cost overrun while completion of the project leading to deterioration of the financial risk profile and liquidity.

## About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	11.56	13.56	13.72
EBITDA	Rs. Cr.	2.00	1.21	0.98
PAT	Rs. Cr.	0.52	0.46	0.35
EBITDA Margin	(%)	17.27	8.91	7.14
PAT Margin	(%)	4.47	3.40	2.52
ROCE	(%)	16.07	16.06	18.32
Total Debt/Tangible Net Worth	Times	0.88	0.35	1.08
PBDIT/Interest	Times	3.14	7.50	4.42

Total Debt/PBDIT	Times	2.67	1.29	2.40
Gross Current Assets (Days)	Days	189	178	164

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

None

**Any other information**

None

**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-20.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
12-Dec-2017	Proposed Term Loan	Long Term	7.50	ACUITE BB- / Stable (Assigned)
	Secured Overdraft	Long Term	3.00	ACUITE BB- / Stable (Assigned)
	Letter of Credit	Short Term	0.50	ACUITE A4 (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
Overdraft	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB- / Stable (Assigned)
Proposed Term loan	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BB- (Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4 (Withdrawn)

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**About Acuité Ratings & Research:**

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