Press Release

Aster Industries

September 07, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.11.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BB-' (read as ACUITE double B minus)** on the Rs.11.00 Cr. bank facilities of Aster Industries (AI). The outlook is **'Stable'**.

Aster Industries (AI) was established in 1998 as a partnership firm by Mr. T. Srinivas Reddy. AI is engaged in the business of manufacturing of bulk drugs, drug intermediaries and chemical compounds. The firm has 2 manufacturing facilities based out of Hyderabad, Telangana and Vishakhapatnam, Andhra Pradesh with a capacity of 30 tonnes per unit each.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

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 the operations of the firm and experience of the promoters have helped the firm in maintaining a healthy relationship of over a decade with its clientele and suppliers. The firm has 2 manufacturing units based out of Hyderabad, Telangana and Vishakhapatnam, Andhra Pradesh.

Acuité believes that the firm is expected to benefit from the long track record of the operations, experience of the partners, and the operational synergies arising from the addition of new unit to its current manufacturing capacity.

- **Moderate financial risk profile**

AI has a moderate financial risk profile marked by comfortable gearing, total outside liabilities to total net worth (TOL/TNW), and debt protection metrics that is partly constrained by modest net worth.

The tangible net worth of the firm has increased to Rs.12.33 crore as on March 31, 2020 (Provisional) from Rs.8.17 crore as on March 31, 2019 due to retention of profits and timely infusion of funds by partners. The firm has a healthy gearing of 0.96 times as on March 31, 2020 (Provisional) as against 1.14 times as on March 31, 2019. The firm has a total debt of Rs.11.87 crore as on March 31, 2020 (Provisional) mainly consisting of long term debt of Rs.4.86 crore, working capital borrowings of Rs.6.49 crore and unsecured loan of Rs.0.52 crore as on March 31, 2020 (Provisional).

The TOL/TNW has improved to 1.11 times as on March 31, 2020 (Provisional) from 1.61 times as on March 31, 2019. The firm has comfortable debt protection metrics marked by Interest Coverage Ratio (ICR) of 2.33 times in FY2020 (Provisional) as against 2.26 times in FY2019. The Debt-Service Coverage Ratio (DSCR) has, however deteriorated to 1.56 times in FY2020 (Provisional) from 2.01 times in FY2019 primarily due increase in the interest obligation.

Acuité believes that going forward the financial risk profile of the company can improve to healthy backed by steady accruals, reduction in total debt and no further planned major debt-funded capex plans.

Weaknesses

• Modest scale of operations

Though the firm has been in existence for more than two decades, the operations have remained very modest in the pharma industry marked by the operating income of Rs.9.29 crore in FY2020 (Provisional) as against Rs.12.46 crore in FY2019. It has booked revenue of ~Rs.7.00 crore during the April, 2020 to August, 2020 period. Its operating margins stood at 31.93 percent in FY2020 (Provisional) as against 19.53 percent in FY2019. The PAT margins stood at 2.98 percent in FY2020 (Provisional) as against 4.40 percent in FY2019. The deterioration in PAT margins can be attributed primarily due to an increase in the interest obligation and depreciation charged on the assets.

Acuité believes that the ability of the firm to improve the scale of its operations while maintaining/improving the profit margins will be the key rating sensitivity factor over the medium term.

• Working capital intensive operations

The operations of AI are working capital intensive marked by a substantial increase in Gross Current Asset (GCA) of 430 days as on March 31, 2020 (Provisional) as against 197 days as on March 31, 2019. This is on account of increase in Debtors of 154 days as on March 31, 2020 (Provisional) as against 134 days as on March 31, 2019 and also a substantial increase in Inventory of 367 days as on March 31, 2020 (Provisional) as against 52 days as on March 31, 2019. The working capital limits too were utilised at near 100 percent for the last six months through July, 2020.

Acuité believes that the operations of the firm are expected to be working capital intensive at similar levels over the medium term.

• Intense competition in the industry

AI operates in a highly fragmented industry marked by the presence of several mid to large size players along with limited entry barriers that limit its bargaining power with the customers and suppliers. However, this risk is mitigated to an extent on account of the extensive experience of the management and its well established presence in the industry.

• Concentration risk

AI along with the majority players of the industry import a large chunk of their raw materials from China due to nascent nature of the raw material manufacturing ecosystem in India and the unavailability of several raw materials in India. This exposes the firm to the unexpected supply shocks that can ultimately affect its overall performance. At the same time, any action taken by the both, India and China governments to promote domestic production and use could have an adverse impact on the firm. However, to overcome such challenges and avoid the near term impact and disruption, if such an action is taken, the firm has increased its inventory levels to fulfil its requirements.

Acuité believes that the ability of the firm to manage such risks and dissipate its impact as much as possible while maintaining the performance will be the key rating sensitivity factor over the medium term.

Liquidity position: Stretched

AI has stretched liquidity position marked by near 100 percent utilization of the fund based working capital facilities over the six month period ended July, 2020. Its net cash accruals stood at Rs.1.69 crore as on March 31, 2020 (Provisional) as against Rs.1.09 crore as on March 31, 2019 as against its maturing debt obligations of Rs.1.25 crore as on March 31, 2020 (Provisional) and Rs.0.62 crore as on March 31, 2019. The NCA/TD has marginally improved to 0.14 times as on March 31, 2020 (Provisional) from 0.12 times as on March 31, 2019. The current ratio stood at 1.16 times as on March 31, 2020 (Provisional) as against 0.88 times as on March 31, 2019. The firm had cash and bank balance of Rs.0.06 crore as on March 31, 2020 (Provisional). The firm has a credit period of 60-90 days both with its customers and suppliers, which further stretches its liquidity position.

Acuité believes that liquidity position can improve to adequate on the back of lower credit periods over the medium term.

Rating Sensitivities

- Improvement, sustainability and healthy growth of revenues and profitability margins.
- Deterioration in the working capital cycle leading to further stress on the liquidity position.
- Disruptions in supply of raw materials impacting the cost structure and the overall performance.

Material Covenants

None

Outlook: Stable

Acuité believes that AI will maintain a stable outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or if the financial risk profile deteriorates due to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	9.29	12.46
PAT	Rs. Cr.	0.28	0.55
PAT Margin	(%)	2.98	4.40
Total Debt/Tangible Net Worth	Times	0.96	1.14
PBDIT/Interest	Times	2.33	2.26

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Entities in Manufacturing Sector - https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
20-Feb-2019	Term Loan	Long Term	7.00	ACUITE BB- / Stable (Assigned)
	Proposed Term Loan	Long Term	7.50	ACUITE BB- (Withdrawn)
	Secured Overdraft	Long Term	4.00 (Revised from Rs.3.00 crore)	ACUITE BB- / Stable (Reaffirmed)
	Letter of Credit	Short Term	0.50	ACUITE A4 (Withdrawn)
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. Crore)	Ratings/Outlook
Term Loan	August, 2018	12.15%	March, 2024	7.00	ACUITE BB- / Stable (Reaffirmed)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB- / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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