

Press Release

Azista Industries Private Limited

September 12, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.8.93 crore
Long Term Rating	ACUITE BB+/ Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the Rs.8.93 crore bank facilities of Azista Industries Private Limited (AIPL). The outlook is '**Stable**'.

Established in December 2014, Azista Industries Private Limited (AIPL) is engaged in manufacturing of dehydrated vegetables and fruits through its own facilities located at Chittoor (Andhra Pradesh). Also, AIPL manufactures other products like mints, medicinal biscuits, nano technology based pain relievers through loan licensing manufacturing model. Further, it is into aerospace engineering with operations since FY2018. Based in Hyderabad (Telangana), AIPL is promoted and managed by Mr. M. Srinivas Reddy. Mr. M Srinivasa Reddy is also the Managing Director in Hetero Healthcare Ltd, Director of Hetero Drugs Ltd and is son-in-law of Founder Chairman and MD of Hetero Drugs.

For dehydrated vegetables and fruits, it operates through its own facility with installed capacity of 900 tonnes per annum (TPA). The total project cost of the unit was Rs.14.25 crore which was set up in two phases. This is funded through debt to equity ratio of 42:58 – term loan of Rs.5.93 crore and remaining through promoters fund support. For other products, it has tie ups with various companies on loan licensing manufacturing model (LLM); the units are based out of Dharwad (Karnataka). Further, for the above operations of LLM, it has purchased 9 acres in Patancheru (Hyderabad) for Rs.1.95 crore.

Further, the company diversified into aerospace engineering in FY2018. It has hired Ex-ISRO employees and has a team of 82 trained people for inorganic growth in that segment; the segment has high growth and market potential in India.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of AIPL to arrive at this rating. The rating also takes support from its group company - Hetero Healthcare Limited (HHL).

Key Rating Drivers

Strengths:

- **Promoter's industry experience and strong Marketing support from Hetero Healthcare Limited (HHL; part of Hetero Group)**

The promoter, Mr. M. Srinivas Reddy is associated with the Hetero Group of Companies since last 17 years as a Director. He has varied experience in Marketing and in particular developing innovative strategies for promoting new molecules in the Pharmaceutical Industry. He is also the Managing Director in Hetero Healthcare Ltd (HHL), Director of Hetero Drugs Ltd and is the son-in-law of Founder Chairman and MD of Hetero Drugs. HHL is a Hyderabad based company engaged in distribution/marketing of pharma products (bulk drugs, API's, Formulations) of flagship entity Hetero Drugs Ltd and also Hetero Labs Ltd.

HHL is associated with 3,54,130 doctors as on date and has 2800 plus field force of medical

representatives. HHL has been supporting AIPL by marketing its products through doctors and medical representatives for deeper penetration in the retail market. AIPL has also been selling dehydrated products to MNCs/corporates like ITC Limited and other products like mints, biscuits through HHL, Retail shops, and departmental stores. These innovative products require heavy marketing spend for deeper penetration in the market. However, AIPL is adopting the strategy by selling through HHL which is deep pocketed and well penetrated in the pharma segment.

Acuité believes that AIPL might face lower risk of penetration and absorption of its products in the market. Also, HHL would lead to higher scale of operations for AIPL over the medium term given low market risk, strong marketing team, and healthy net worth.

- **Huge demand prospects of dehydrated vegetables and fruits in India and export markets & governments' strategic initiatives to promote the same**

The food processing industry is one of the largest industries in India and is ranked fifth in terms of production, consumption and exports. India is gradually shifting its focus from the export of fresh horticulture products to processed ones for better realisation and to beat the stringent import quality norms set by West Asian and European countries. According to Agricultural and Processed Food Export Development Authority (APEDA), India showed an over 15 per cent decline in export of fresh vegetables to \$581 million during April-December 2017 from \$686 million in the year-ago period. Export of processed vegetables, however, rose by 3.9 percent to \$197 million during the period from \$190 million in the same period last year. Similarly, export of fresh fruits declined by 4.3 percent to \$391 million during the first nine months of the current financial year from \$408 million a year ago. Shipment of processed fruits and juices rose 8.3 percent to \$460 million during the period from \$425 million in the year-ago period.

Many countries have imposed stringent quality norms, which make it difficult for exporters of fresh fruits and vegetables, since most shipments are done by medium-scale traders. In case of processed fruits and vegetables, however, the involvement of the corporate sector brings with it an adherence to quality. Hence, shipping of fresh fruits and vegetables is gradually becoming challenging but exporting their processed variants is easier. Apart from the increase in realisation, value-added products offer better shelf life. The government has also offered several benefits in terms of incentives on installation of plant and machinery for food processing sector. The government has also introduced mega food parks for converting fresh fruits and vegetables into value-added products. Gradual increase in food processing is set to reduce the natural wastage / perishable nature of the fruits and vegetables post-harvest, which is estimated at around 30 percent of India's overall farm production.

- **Location advantage ensuring better raw material linkages under dehydrated vegetable/fruits division**

The unit is located at Kuppam, a small town located in Chittoor district of Andhra Pradesh. Vegetables such as Cabbage, Sweet Corn, Tomato, Potato, Green Chillies, and other vegetables are available in abundant quantities and grown within a radius of 30km from the Factory location. The area is also famous for fruits such as Papaya, Mango, Banana being the major. Kuppam is famous for Cabbage, and this is exported not only throughout the state, and to neighboring states, and also to West Bengal and other parts of the country too. It procures the vegetables, peels, cut and dehydrates for ready-to-use with longer shelf life. The market for ready-to-use vegetables is growing and it has key clients include ITC Ltd., Indo-Nissin Foods Pvt Ltd among others. The company is planning to procure the raw material, by way of contract farming or backward integration, as this would ensure that the quality of the raw material remains consistent from batch to batch. Acuité believes that AIPL's dehydrated plant is located strategically which would help AIPL in sourcing raw material prudently and lead to lower costs.

□ **Comfortable financial risk profile and strong funding support from promoters**

AIPL's financial risk profile is comfortable marked by comfortable capital structure and debt protection metrics. AIPL's gearing has been below at 0.60 times over the last two years ending 31 March, 2018 (Provisional). Gearing was healthy at 0.56 times as on 31 March, 2018 on provisional basis. It marginally deteriorated from 0.40 times as on March, 2017 yet remained healthy due to capex for expansion. Net worth is moderate at Rs.16.95 crore as on 31 March, 2018 (Provisional) vis-à-vis Rs.15.42 crore as on 31 March, 2017 due to its prudent funding mix through healthy promoters' contribution in form of unsecured loan. AIPL's moderate net cash accruals and moderate debt has led to comfortable NCA/TD and interest coverage of 0.24 times and 7.15 times in FY2018 (Provisional). AIPL has unsecured loans from Director which has been increasing over the last 2 years ending 31 March, 2018 to support capex. The same is treated as quasi equity. Acuité believes that AIPL's financial risk profile would remain comfortable over the medium term provided AIPL continues to follow its prudent funding mix.

Weaknesses:

□ **Steady revenue growth yet scale remains modest; nascent stage with short track record of operations**

AIPL's revenue has been growing steadily from Rs.9.26 crore in FY2017 to Rs.21.24 crore in FY2018 on provisional basis. However, despite the positive traction witnessed in growth over the past two years, the scale has remained modest due to its nascent stage of operations. This also depicts short track record of operations in its existing business. Acuité believes that growth in scale would remain the key rating sensitivity factor over the medium term given its recent capacity expansion for dehydrated vegetables and moderate order book in hand of Rs.21.10 crore to be executed over next 6-12 months of time.

• **Diversification into non-related segment – Aerospace**

AIPL has diversified into aerospace segment by providing End to End solution of Design, Development, Manufacturing and Integration of Satellite, Space Borne Systems, Payloads and Satellite-Enabled Ground Systems including SATCOM and Hydrometeorology Sensors and Stations. It is operating through leased premises in Ahmedabad (Gujarat) wherein lease rentals are Rs.8.00 lakhs per month. It has already an established team of 82 people including ex-ISRO employees. FY2018 was the first year of operation and has incurred Rs.1.41 crore as expense in FY2018 vis-à-vis Rs.18.00 lakhs of revenue. AIPL is working on pilot projects establishing and proving its capabilities under this segment. It is expected to receive Rs.5.00 crore as revenue for pilot projects and might bid for tender worth Rs.15-20 crore, the income of which would reflect from FY2020. Acuité believes that AIPL's strategic move to diversify without any capital investment however the stabilisation and successful bidding in tenders would remain a monitorable over the medium term as any delay in stabilisation would dent the EBITDA margins on aggregate basis due to its fixed expenses like employee and lease rentals.

Outlook:

Acuité believes that AIPL will maintain a 'Stable' outlook on the back of the management's industry experience. The outlook may be revised to 'Positive' in case of sustained increase in revenues while maintaining its profitability and successful diversification and stabilisation of its aerospace operations. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in revenues or profitability margins, larger debt funded capex leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	21.24	9.26	0.03
EBITDA	Rs. Cr.	3.47	1.62	-0.19
PAT	Rs. Cr.	1.30	0.64	-0.14
EBITDA Margin	(%)	16.36	17.47	-682.69
PAT Margin	(%)	6.14	6.95	-506.25
ROCE	(%)	15.52	18.71	-10.69
Total Debt/Tangible Net Worth	Times	0.56	0.40	0.00
PBDIT/Interest	Times	7.15	9.06	-488.93
Total Debt/PBDIT	Times	2.45	1.83	0.00
Gross Current Assets (Days)	Days	169	207	3196

Status of non-cooperation with previous CRA:

None

Any other information:

None

Applicable Criteria

- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-4.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB+/Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	5.93	ACUITE BB+/Stable (Assigned)

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About Acuite Ratings & Research:

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