Press Release

Azista Industries Private Limited

October 04, 2019

Rating Upgraded

Total Bank Facilities Rated*	Rs. 8.93 Cr.
Long Term Rating	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating to **'ACUITE BBB-' (read as ACUITE triple B minus)** from **'ACUITE BB+' (read as ACUITE double B plus)** on the Rs. 8.93 crore bank facilities of AZISTA INDUSTRIES PRIVATE LIMITED (AIPL). The outlook is **'Stable'**.

The rating upgrade factors in sustained growth in its revenues, while diversifying the revenue profile; its revenues from core business of dehydrated vegetables have been improving supported by addition of reputed clientele, besides higher off-take from the existing clients. Also, its aerospace division has started commercial operations with its full-fledged operational plant at Ahmedabad; and is expected to break-even in the near term aids in improving the overall profitability. The rating also factors in experienced management with strong financial flexibility to support the entity's investment plans. However, the rating continues to be constrained by modest scale and working capital intensive operations.

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 such as 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.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Azista Industries Private Limited to arrive at this rating.

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); HHL is a Hyderabad-based company engaged in distribution/marketing of pharma products (bulk drugs, API's, Formulations) of flagship entity Hetero Drugs Limited and also Hetero Labs Limited. HHL is associated with around 4 lakh doctors as on date and has three thousand 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 such as ITC Limited and other products such as 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 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.

- **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 Limited, Indo-Nissin Foods Private Limited, Marico Industries Limited, Ghanta Foods Limited, Priya Foods Limited, 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 improved to 0.32 times in FY2019 (Provisional) against 0.59 times in FY2018. Net worth is moderate at Rs. 24.39 crore as on 31 March, 2019 (Provisional) vis-à-vis Rs.14.63 crore as on 31 March, 2018 due to its prudent funding mix through healthy promoters' contribution in the form of unsecured loans. AIPL's moderate net cash accruals and moderate debt has led to comfortable NCA/TD and interest coverage of 0.52 times and 5.08 times in FY2019 (Provisional) against 0.26 and 7.03 times in FY2018. AIPL has unsecured loans from Director, which has been treated as quasi equity; and have been increasing over the last 2 years and stood at Rs.18.82 crore ending 31 March, 2019(Provisional) (Rs.11.67 crore in FY2018) to support the capex and investments in subsidiaries. It has invested about Rs.10.12 crore on capex and about Rs. 3.51 crore by way of investments in subsidiaries. Acuité believes that AIPL's financial risk profile would remain comfortable over the medium term as any incremental investments in subsidiaries or on capex is expected to be supported by the promoters by way of unsecured loans while using the accruals for incremental working capital requirements.

Weaknesses

- **Steady revenue growth yet scale remains modest**
  AIPL's revenue has been growing steadily from Rs. 21.24 crore in FY2018 to Rs. 34.07 crore in FY2019 on provisional basis. However, despite the positive traction witnessed in growth over the past two years, the scale has remained modest. For 4MFY2020, it has an order book position of about Rs.12.00 crore; this is majorly owing to regular client addition with supplies to ITC Limited, Indo-Nissin Foods Private Limited, Marico Industries Limited, Ghanta Foods Limited, Priya Foods Limited, among others. Further, it has got an order book of Rs. 11.20 crore from its Aerospace division with contracts from Aerospace Centre - Gujarat, NSTL - Visakhapatnam, Water Resources Department, Government of Andhra Pradesh. Improving order flow from food division and aerospace besides trading in specialty drugs is expected to support in improvement of its revenues to Rs.45.00 – 70.00 crores over the medium term.

- **Working capital intensive operations**
  AIPL's operations are working capital intensive with Gross Current Assets (GCA) of about 193 days in FY2019 (Provisional) against 173 days in FY2018. The company has moderately high inventory days as the vegetables procured are seasonal and shall be procured at better prices and process it to store them. AIPL creditor days increased to 284 days in FY2019 (Provisional) from 184 days in FY2018. The sharp increase is on account of procuring sensors in the month of March for irrigation project and also traded items. Debtor days stood at 48 days in FY2019 (Provisional) against 55 days last year. Working capital intensive operations lead to moderately high utilisation of its bank lines at about 81 per cent over past six months through August 2019. Acuité believes that AIPL's operations would be working capital intensive and remain at current levels over the medium term.

- **Significant investments in subsidiaries and joint ventures**
  AIPL has four wholly-owned subsidiaries i.e., Azista USA Inc., Azista South Africa and Azista Singapore Pte Ltd. with an investment of Rs.1.12 crore as of March 31, 2019 (Provisional) (Rs.0.49 crore in FY2018); they are marketing offices to support its trading operations going forward. During FY2019, AIPL partnered with Royal Government of Bhutan (RGB) under a joint venture Azista Bhutan Healthcare Limited in 72:28 ratio; its for setting up a pharma unit for manufacture of generic capsules and tablets with an initial project cost of Rs. 8.00 crore. AIPL has invested its share of about Rs. 5.76 crore as of August 2019 and expecting the commercial operations during Q4FY2020; as per the arrangement, the products manufactured at this facility will be majorly for supplies to the hospitals and dispensaries of RGB. Acuite believes that successful commencement of operations at this JV and any larger-than-expected investments are key rating sensitivity factors though the same are supported by promoters.

- **Investments in aerospace division, revenues to build**
  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 has already an established team of 80 people including ex-ISRO employees. AIPL in FY2018 supplied proto types from its pilot project; on successful supplies and for regular production, it has setup its own facility at Ahmedabad with an investment of about Rs.11.00 crore in FY2019 entirely funded out of promoters by way of unsecured loans and security deposits from its marketing associate HHL. It is expecting additional investment of Rs.3.00-4.00 crores in FY2020. Major investment is on plant and machinery and lab equipment. It has received multiple orders from Aerospace Centre, NSTL and Water Resources Department (GoAP) during FY2019 and current period with an outstanding position of about Rs.11.20 crores; for deliverable over 6-18 months. Further, it has participated in various tenders and expecting revenue potential of Rs.15.00-25.00 crores over the medium term. Acuite believes that successful supplies and winning repeat business are key rating sensitivity factors over the medium term.

Rating Sensitivity

- Sustained increase in revenues from Rs. 45.00-70.00 crores, while improving operating profit margins to 21-24 per cent over the medium term.
- Increase in GCA days from the current levels to 250 days and beyond.

Material Covenants

None

Liquidity Position:

Liquidity position of company is adequate, which is evident by its moderate net cash accruals of Rs. 4.03 Cr against maturing debt obligations of Rs. 0.87 Cr in FY2019 (provisional). GCA days are moderately high at 193 days in FY 2019 (provisional) and has led to high utilisation of bank limits by average of 81 per cent of six months ended July 2019. However, current ratio of company improved significantly from 1.15 in FY2018 to 2.41 in FY2019 (provisional). The Promoters have infused about Rs. 7.15 crore in FY2019 (provisional). Acuité believes that, going forward, the company's liquidity is expected to remain adequate on account of improving cash accruals backed by expected sustenance of its aerospace division in the near term.

Outlook: Stable

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 early break-even of its aerospace division and maintaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management or any significant investments in subsidiaries leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	34.07	21.24	9.26
EBITDA	Rs. Cr.	6.13	3.35	1.62
PAT	Rs. Cr.	2.71	1.52	0.64
EBITDA Margin	(%)	17.98	15.78	17.47
PAT Margin	(%)	7.96	7.14	6.95
ROCE	(%)	16.41	15.33	25.75
Total Debt/Tangible Net Worth	Times	0.32	0.59	0.40
PBDIT/Interest	Times	5.08	7.03	9.06
Total Debt/PBDIT	Times	1.31	2.53	1.83
Gross Current Assets (Days)	Days	193	172	207

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-17.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)

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
Term Loans	Not Applicable	Not Applicable	Not Applicable	5.93	ACUITE BBB-/Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00*	ACUITE BBB-/Stable (Upgraded)

***** *BG/LC is sub-limit of CC up to Rs.1 crore*

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.