

Press Release

Azista Industries Private Limited

January 25, 2022



Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.93	ACUITE BBB+ Stable Upgraded	-
Bank Loan Ratings	7.00	-	ACUITE A2 Assigned
Total Outstanding Quantum (Rs. Cr)	8.93	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB+** (read as ACUITE triple B plus) from '**ACUITE BBB-**' (read as ACUITE triple B minus) and assigned the short term rating of '**ACUITE A2**' (read as ACUITE A two) on the Rs 8.93 Cr bank facilities of Azista Industries Private Limited (AIPL). The outlook remains 'Stable'.

The upgrade in the rating factors in the improved business risk position of the company marked by significant outgrowth in the expected revenue and improvement in the profitability margins buoyed by the high demand in the health & wellness segment and higher margins in the aerospace engineering division, leading to enhanced cash accruals for the company. Further, the company has diversified its product profile and significantly improved its inventory management, resulting in shorter working capital cycle.

The rating continues to derive strength from the rich management experience and comfortable financial risk profile of the company. However, the rating is partially constrained by the moderate working capital cycle in the current financial year and uncertainty related to the tender based orders in the aerospace segment.

About the Company

Incorporated in 2014, Azista Industries Private Limited (AIPL) is a Hyderabad based company, which is engaged in manufacturing of dehydrated vegetables and fruits. In addition to this, AIPL manufactures mints, medicinal biscuits, nano technology based pain relievers through loan licensing manufacturing model. Further in 2018, AIPL had ventured into the business of aerospace engineering, which began its commercial operations from March, 2020. Currently, the company is headed by the founder promoter Mr. M. Srinivas Reddy, Mr. Bose Numburi and Mr. Ravi Chandra Reddy Vakka. The company has an installed capacity of 900 TPA for dehydrated vegetables and fruits at Chittoor in Andhra Pradesh. The facility for aerospace engineering is located at Ahmedabad, Gujarat.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management

The key promoter of AIPL, Mr. M. Srinivas Reddy has been associated with the pharmaceutical industry for around two decades. He is also the common director in the group company - Hetero Healthcare Limited (HHL), which is the flagship entity of the Hetero Group. Acuité believes the long experience of the promoter will continue to support the business, going forward.

Improved financial risk profile

The company's financial risk profile has improved sharply marked by modest networth, low gearing and robust debt protection metrics. The tangible net worth of the company increased to Rs.43.57 Cr as on March 31, 2021 from Rs.10.06 Cr as on March 31, 2020 due to accretion of reserves. Gearing of the company stood below unity at 0.42 times as on March 31, 2021 as against 4.21 times as on March 31, 2020 due to repayment of around Rs.20 Cr of unsecured loans with the company's increased internal cash accruals. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved to 1.06 times as on March 31, 2021 from 8.09 times as on March 31, 2020. The robust debt protection metrics of the company is marked by Interest Coverage Ratio at 31.05 times and Debt Service Coverage Ratio (DSCR) at 15.08 times as on March 31, 2021. NCA/TD stood strong at 1.99 times in FY 2021. Going forward, Acuité believes that the financial risk profile of the company will improve further backed by steady accruals and no major debt funded capex plans.

Significant growth in revenues & profitability margins

The company has achieved 200 per cent growth in its top line in FY21 with revenue of Rs.109.23 Cr in FY21 as compared to revenues of Rs.36.29 Cr in FY20 and Rs.34.06 Cr in FY19. The growth in top line is on account of high demand for dehydrated vegetables, health & wellness products due to the on-going pandemic and increased order flow in aerospace engineering division. Further, the company has reported revenue of Rs.151.51 Cr as on 31st December, 2021 (prov.).

The operating margin stood healthy at 46.33 per cent during FY2021 as against 18.86 per cent in FY2020. The PAT margin too improved to 30.50 per cent FY2021 as against 6.14 percent in FY2020. The various reasons for improvement in margins in FY21 are the highly profitable business of aerospace engineering due to the innovation in products involved and high volume of sales in the pharma and health & wellness segment. The healthy profitability margins have translated into robust RoCE levels, which stood at 80.96 per cent in FY2021 as against 11.92 per cent in FY2020. Acuité believes the significantly increased margins are dependent on the aerospace engineering division which is tender based and hence company's ability to sustain the profitability margins will remain a key monitorable.

Weaknesses

Tender based orders in the highly profitable aerospace division

AIPL majorly executes tender based orders from government authorities in its aerospace engineering division, which is the highly profitable segment of the company. Since the nature of operations is tender based, the business depends on the ability to bid for contracts successfully. Risk become more pronounced as tendering is based on too many technicalities. However, this risk is mitigated to an extent on account of extensive experience of the management and a moderate order book in hand. AIPL's revenue and profitability are susceptible to risks inherent in tender based operations. At the same time, given the volatile economic environment there exists possibility of slowdown in release of new contracts which might result in sluggish growth.

Rating Sensitivities

- Ramp up in the scale of operations while sustaining profitability margins
- Reduction in order flow for aerospace division

Material covenants

None

Liquidity Position: Strong

The company's liquidity position improved in FY21 and is strong marked by high net cash accruals of Rs.36.63 Cr as on March 31, 2021 as against long term debt repayment of Rs.0.90 Cr over the same period. The current ratio stood at 1.31 times as on March 31, 2021 as compared to 1.20 times as on March 31, 2020. The fund based limit remained utilised at 38 per cent over seven months ended December, 2021. The company has neither availed loan moratorium, nor Covid loan. The working capital cycle of the company stood efficient marked by Gross Current Assets (GCA) of 87 days as on 31st March 2021 as compared to 222 days as on 31st March 2020 due to improvement in the scale and low inventory holding as the aerospace segment is order backed. The cash and bank balances of the company stood at Rs.0.05 Cr as on March 31, 2021 as compared to Rs.0.07 Cr as on March 31, 2020. Going forward, Acuité believes the liquidity position of the company will be sustained marked by enhanced net cash accruals.

Outlook: Stable

Acuité believes that the outlook on AIPL will remain 'Stable' over the medium term on account of the long track record of operations, locational advantage, marketing support and the company's comfortable financial risk position. The outlook may be revised to 'Positive' in case of significant growth in revenue from the current levels while sustaining its margins and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenue or operating margins and elongation in its working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	109.23	36.29
PAT	Rs. Cr.	33.32	2.23
PAT Margin	(%)	30.50	6.14
Total Debt/Tangible Net Worth	Times	0.42	4.21
PBDIT/Interest	Times	31.05	3.59

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

Not Applicable

Any other information

Not Applicable

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>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Nov 2020	Proposed Bank Facility	Long Term	5.93	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	3.00	ACUITE BBB- Stable (Reaffirmed)

04 Oct 2019	Term Loan	Long Term	5.93	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Cash Credit	Long Term	3.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
12 Sep 2018	Term Loan	Long Term	5.93	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	3.00	ACUITE BB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
IDBI Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A2 Assigned
IDBI Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB+ Stable Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.93	ACUITE BBB+ Stable Upgraded

*Interchangeability from NFB to FB to the extent of 25% of NFB limit.

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About Acuité Ratings & Research

Acuité Ratings & Research 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 8,850 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 Kanjurmarg, Mumbai.

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