

Press Release

Azista Industries Private Limited

March 29, 2023



Rating Assigned and Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|---------------------|-----------------------------------|------------------------|
| Bank Loan Ratings | 39.00 | ACUITE BBB+ Stable Assigned | - |
| Bank Loan Ratings | 1.00 | ACUITE BBB+ Stable Reaffirmed | - |
| Bank Loan Ratings | 17.04 | - | ACUITE A2 Assigned |
| Bank Loan Ratings | 7.93 | - | ACUITE A2 Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 64.97 | - | - |

Rating Rationale

Acuite has reaffirmed its short-term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 7.93 crore of bank facility and its long-term rating of **ACUITE BBB+** (read as **ACUITE triple B plus**) on the Rs.1.00 crore bank facility of Azista Industries Private Limited (AIPL). Acuite also has assigned its long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs.39 crore bank facilities and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on Rs. 17.04 crore bank facilities of AIPL. The outlook is '**Stable**'.

Rationale for the rating assigned and reaffirmation

The rating takes into account the stable operating and financial performance of AIPL. AIPL's operating income stood at Rs. 175.25 crore in FY2022 against Rs. 109.23 crore in FY2021. In 11M FY2023, revenue stood at Rs.140 crore and is expected to close the year in the range of Rs 160-170 crore. The revenue growth registered in FY2022 is primarily attributable to the health and wellness segment, which performed exceptionally well due to the high demand levels owing to covid-19 pandemic during FY2022. Also, the space division made a significant contribution in the Company's revenues in FY2022 as compared to FY2021. In the current financial year, health and wellness division's revenue has moderated. Also, the higher margin generating space division, has contributed minimally in the current financial year, however, is backed by a healthy unexecuted order book position. Further, realisations have also reduced in the dehydration division. Accordingly, a slight moderation in revenue and profitability margins is expected in the current financial year. The operating margins of the Company which stood at 46.14% in FY2022 is expected to be in the range of 20-25% in FY2023. The financial risk profile company is expected to remain healthy over the medium term marked by low gearing and comfortable debt protection metrics. However, moderation in working capital cycle is expected. AIPL's ability to sustain the growth in its scale of operations and profitability levels while maintaining its capital structure over the medium term will remain a key monitorable.

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.

Healthy financial risk profile

AIPL's financial risk profile is healthy marked by healthy net worth, low gearing, and comfortable debt protection metrics. The tangible net worth of the company increased to Rs.102.58 crore as on March 31, 2022, from Rs.43.57 crore as on March 31, 2021 on account of accretion of profits to the reserves. AIPL's gearing improved to 0.08 times as on March 31, 2022 as against 0.42 times as on March 31, 2021 due to repayment of approximate Rs.9.85 crore of unsecured loans from the promoters and group companies through internal cash accruals. The debt of Rs.8.19 crore consists of unsecured loans of Rs.5.71 crore, working capital loan of Rs.2.49 crore as on March 31, 2022. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved to 0.33 times as on March 31, 2022, from 1.06 times as on March 31, 2021. The debt protection metrics of the company were comfortable marked by Interest Coverage Ratio at 190.33 times and Debt Service Coverage Ratio (DSCR) at 137.51 times as on March 31, 2022, against 31.05 times and 15.08 times as on March 31, 2021 respectively. NCA/TD stood strong at 7.67 times in FY 2022 against 1.99 times in FY2021. The company plans to avail additional short term borrowings of Rs. 32.5 Cr over the near term. Further due to expected moderation in profitability levels, Acuite believes the financial risk profile of the company shall decline slightly over the near term, however, it shall continue to remain healthy.

Improvement in revenues, albeit moderation in profitability margins

The company has achieved approx. 60.44 per cent growth in its top line in FY22 with revenue of Rs.175.25 crore in FY22 as compared to revenues of Rs.109.23 crore in FY21. The profitability remained range bound at FY2021 levels. The growth in top line is on account of increased demand for dehydrated vegetables, health & wellness products due to the covid-19 pandemic and increased order flow in aerospace engineering division. Further, the company has reported revenue of Rs.140 crore as of February 2023 (Prov) and is expected to close the year in the range of Rs.160-170 crore. In the current financial year, the demand levels of health & pharma products have moderated from the highs of FY2022. Also, the space division has been contributing minimally to revenue in the current financial year as it inherently is dependent on the tender-based orders. In view of the above, Acuite expects a slight moderation in revenue and profitability margins of the company in the near term. The operating margins of the Company which stood at 46.14% in FY2022 is expected to be in the range of 20-25% in FY2023.

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 becomes more pronounced as tendering is based on too many technicalities. AIPL's revenue and profitability are susceptible to risks inherent in tender based operations. However, this risk is mitigated to an extent on account of extensive experience of the management and a healthy order book in hand which is expected to be executed over the medium to long term period.

Rating Sensitivities

- Sustained growth in revenues while maintaining the profitability margins.
- Reduction in order flow for aerospace division.
- Elongations in the working capital operations.

Material covenants

None

Liquidity Position Adequate

The company's liquidity position improved in FY22 and is adequate, marked by high net cash accruals of Rs. 62.82 crore as of March 31, 2022, as against modest long term debt repayment of Rs. 0.03 crore over the same period. The company also repaid a part of USL through internal cash accruals. The current ratio stood at 1.76 times as of March 31, 2022, as compared to 1.31 times as of March 31, 2021. The fund-based limit remains utilisation stood high at 77.73 percent over the nine months ended December 2022, and the non-fund based limit utilisation at 61.73 percent during the same period. The working capital operations of the company stood efficient, marked by gross current assets (GCA) of 94 days as of March 31st, 2022, as compared to 87 days as of March 31st, 2021. The cash and bank balances of the company stood at Rs. 0.22 crore on March 31, 2022, as compared to Rs. 0.05 crore on March 31, 2021. Going forward, Acuite believes the liquidity position will remain adequate sustained by the expected high cash accruals.

Outlook: Stable

Acuite 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 significant deterioration in the revenues or operating margins and elongation in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 175.25 | 109.23 |
| PAT | Rs. Cr. | 59.13 | 33.32 |
| PAT Margin | (%) | 33.74 | 30.50 |
| Total Debt/Tangible Net Worth | Times | 0.08 | 0.42 |
| PBDIT/Interest | Times | 190.33 | 31.05 |

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>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|---|
| 25 Jan 2022 | Cash Credit | Long Term | 1.00 | ACUITE BBB+ Stable (Upgraded from ACUITE BBB- Stable) |
| | Proposed Bank Facility | Long Term | 0.93 | ACUITE BBB+ Stable (Upgraded from ACUITE BBB- Stable) |
| | Bank Guarantee | Short Term | 7.00 | ACUITE A2 (Assigned) |
| 09 Nov 2020 | Cash Credit | Long Term | 3.00 | ACUITE BBB- Stable (Reaffirmed) |
| | Proposed Bank Facility | Long Term | 5.93 | ACUITE BBB- Stable (Reaffirmed) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|----------------|----------------|--------------------------------------|------------------|----------------|----------------|------------------|-------------------|--|
| Bank of Baroda | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 7.93 | ACUITE A2 Reaffirmed |
| Bank of Baroda | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 2.07 | ACUITE A2 Assigned |
| Bank of Baroda | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 6.50 | ACUITE BBB+ Stable Assigned |
| Bank of Baroda | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 1.00 | ACUITE BBB+ Stable Reaffirmed |
| Not Applicable | Not Applicable | Proposed Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | Simple | 14.97 | ACUITE A2 Assigned |
| Not Applicable | Not Applicable | Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 7.50 | ACUITE BBB+ Stable Assigned |
| Not Applicable | Not Applicable | Proposed Working Capital Demand Loan | Not Applicable | Not Applicable | Not Applicable | Simple | 25.00 | ACUITE BBB+ Stable Assigned |

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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