Press Release
Azista Industries Private Limited
June 26, 2024
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	39.97	ACUITE BBB | Stable | Downgraded	-
Bank Loan Ratings	25.00	-	ACUITE A3+ | Downgraded
Total Outstanding Quantum (Rs. Cr)	64.97	-	-

Rating Rationale

Acuite has downgraded its long-term rating to **ACUITE BBB' (read as ACUITE t riple B)** from **'ACUITE BBB+' (read as ACUITE t riple B plus)** and short-term rating to **ACUITE A3+' (read as ACUITE A three plus)** from **'ACUITE A2' (read as ACUITE A two)** on the Rs.64.97 crore of bank facility of Azista Industries Private Limited (AIPL). The outlook is **'Stable'.**

Rationale for the rating downgrade

The rating downgrade takes into account the sharp decline in scale of operations and elongation in working capital cycle. The operating income declined to Rs.69.87 Cr. in FY2024(E) as compared to Rs.161.72 Cr. in FY2023 and Rs.175.25 Cr. in FY2022. The operating margin of the AIPL stood at 17.70 percent in FY2023 as against 46.14 percent in FY2022. Further, in FY2024(E) the margins have declined to 12.98 percent. The working capital cycle of the company elongated with GCA days of 162 days as on March 31, 2023 as compared to 94 days March 31, 2022.

However, the rating is supported by long track record of operations, locational advantage, marketing support from HHL (Hetero Healthcare Limited) and the company's above average financial risk position.

Going forward, AIPL's ability to improve in its scale of operations and profitability levels and ability to restrict the further elongation of working capital is the 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

Unsupported Rating

Not Applicable

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.

Above-average financial risk profile

AIPL's financial risk profile is above-average with improving net-worth, low gearing levels and comfortable debt protection metrics. The net worth of the company stood at Rs.118.49 Cr. as on March 31, 2023 as against Rs.102.58 Cr. as on March 31, 2022. The increase in the net-worth is due to accretion of reserves. AIPL's gearing stood at 0.30 times as of March 31, 2023 as against 0.08 times on March 31, 2022, due to increase in short term debt. The short term debt of Rs.30.11 Cr. consists of cash credit of Rs.14.18 Cr. and WCDL of Rs.15.93 Cr. WCDL is loan provided for work contract received from DGRE, the company availed Rs.25.00 Cr. from BOB bank. The total debt also includes of unsecured loans of Rs. 5.71 crore as of March 31, 2023.
The total outside liabilities to tangible net worth (TOL/TNW) moderately deteriorated and stood at 0.52 times as on March 31, 2023 as against 0.33 times as on March 31, 2022. The Debt/EBITDA of the company declined and stood at 1.25 times as on March 31, 2023 as against 0.10 times as on March 31, 2022.
The comfortable debt protection metrics of the company are marked by Interest Coverage Ratio (ICR) of 22.80 times and a Debt Service Coverage Ratio (DSCR) of 17.95 times as on March 31, 2023. NCA/TD stood moderate at 0.60 times in FY2023.
Going forward, Acuité believes that the financial risk profile of the company will remain above -average as there is no long term debt planned CAPEX in the future.

Weaknesses

Sharp decline in scale of operations

The company has achieved operating revenue of Rs.161.72 Cr. in FY2023 as compared to Rs.175.25 Cr. in FY2022. Further, operating revenue has declined and stood at Rs.69.87 Cr. in FY2024(E). The decline in operating revenue is due to the fact that the work order amounting to Rs.36-37 Cr. under aerospace segment was not able to be converted into sales as there was a delay in receiving the NOC from the Ministry of Defense. Further, in the pharma segment, demand from the COVID related products have decreased. The operating margin of the AIPL stood at 17.70 percent in FY2023 as against 46.14 percent in FY2022. Further, in FY2024(E) the margins have declined to 12.98 percent. The operating margins from pharma industry have moderately declined resulting in reduced revenue available to cover fixed costs. The PAT margin stood at 10.72 percent in FY2023 as against 33.74 percent in FY2022. Acuite believes that the company will be able to improve its revenue in the near term, as it has an outstanding order book of Rs.99.10 Cr. and has taken on a new portfolio for trading and manufacturing purposes under pharma segment.

Intensive Working Capital Operations

The working capital operations of the company stretched in FY2023 as compared to FY2022. The GCA days of the company stood at 162 days as on March 31, 2023 as against 94 days as on March 31, 2022. The stretch in GCA days is due to an increase in debtor days and other current assets. The debtor days stood at 77 days as on March 31, 2023 as against 45 days as on March 31 2022.
The inventory days stood at 74 days as on March 31, 2023 as against 64 days as on March 31 2022. Further in FY2024(E), the inventory days stood as high as 431 days. The reason for the increase in inventory days is due to unbilled work amounting to Rs.36-37 Cr. The creditors days improved and stood at 80 days as on March 31, 2023 as against 116 days as on March 31, 2022. The fund based limits of the company stood at 92.04 percent for 6 months ended May 2024 and the non-fund based limit was utilised at 49.48 percent during the six months ended April 2024.

ACUITE expects that the working capital operations of the company will remain at a similar level and going forward the company's ability to restrict the further elongation of working capital is the key monitorable.

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

- Significant and sustainable improvement in profitability margins and scale of operations while maintaining the capital structure
- Any reduction in order flow for aerospace division.
- Any further elongations in the working capital operations.

Liquidity Position: Adequate

The company's liquidity position is adequate with net cash accruals of Rs.21.34 Cr. as against to its nil current maturities of long- term debt. Further, the net cash accruals are expected to be in the range of Rs.7.82 – 16.79 Cr. against to the nil current maturities for the same period. The cash and balances of the company stood at Rs.0.07 Cr. as on March 31, 2023. The current ratio stood at 1.38 times as of March 31, 2023, as compared to 1.76 times as of March 31, 2022. The fund-based limit remains utilised at 92.04 percent over the six months ended May 2024 and the non-fund based limit utilised at 49.48 percent during the 6 months ended April 2024.
Acuite derives comfort from the healthy internal cash accruals, through which capex is being funded. Going forward, Acuite believes the liquidity position will remain adequate sustained by the high 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 above- average financial risk position. The outlook may be revised to 'Positive' in case of significant growth in revenue from the current levels with improvements in 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 further elongation in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	161.72	175.25
PAT	Rs. Cr.	17.34	59.13
PAT Margin	(%)	10.72	33.74
Total Debt/Tangible Net Worth	Times	0.30	0.08
PBDIT/Interest	Times	22.80	190.33

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
None

Applicable Criteria
• Default Recognition :- https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities: 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, Acuité 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
29 Mar 2023	Bank Guarantee (BLR)	Short Term	7.93	ACUITE A2 (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	2.07	ACUITE A2 (Assigned)
	Cash Credit	Long Term	6.50	ACUITE BBB+ | Stable (Assigned)
	Cash Credit	Long Term	1.00	ACUITE BBB+ | Stable (Reaffirmed)
	Proposed Bank Guarantee	Short Term	14.97	ACUITE A2 (Assigned)
	Proposed Cash Credit	Long Term	7.50	ACUITE BBB+ | Stable (Assigned)
	Proposed Working Capital Demand Loan	Long Term	25.00	ACUITE BBB+ | Stable (Assigned)
25 Jan 2022	Bank Guarantee (BLR)	Short Term	7.00	ACUITE A2 (Assigned)
	Cash Credit	Long Term	1.00	ACUITE BBB+ | Stable (Upgraded from ACUITE BBB- | Stable)
	Proposed Long Term Bank Facility	Long Term	0.93	ACUITE BBB+ | Stable (Upgraded from ACUITE BBB- | Stable)

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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.00	ACUITE A3+ | Downgraded (from ACUITE A2)
Bank of Baroda	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	15.00	ACUITE BBB | Stable | Downgraded (from ACUITE BBB+)
Bank of Baroda	Not avl. / Not appl.	Working Capital Demand Loan (WCDL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	24.97	ACUITE BBB | Stable | Downgraded (from ACUITE BBB+)

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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.