

Press Release

Astha Innovations Private Limited

July 29, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.10.00 Cr.
Long Term Rating	ACUITE BB+/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs.10.00 Cr bank facilities of Astha Innovations Private Limited (AIPL). The outlook is '**Stable**'.

The rating on AIPL takes cognizance of company's steady business risk profile marked by long track record, experienced management and improving profitability margins. These strengths are, however, partially constrained by the moderate financial risk profile, working capital intensity in its operations and susceptibility to volatility in prices.

About the company

Incorporated in April 2001 and promoted by Mr. Dharamveer Nachrani, AIPL is engaged in trading of iron and steel products in Raipur, Chhattisgarh. Around 85 per cent of the company's revenue comes from export sales to countries like Nepal, Sri Lanka, Belgium, South Africa, Kenya and UAE. AIPL is a Star Export House certificate holder for its performance in the export sector. In addition, the company had setup a wind power plant in 2011 with a power generation capacity of 1.5 MW at Shajapur district in Madhya Pradesh. AIPL has entered into a power purchase agreement with Madhya Pradesh Power Corporation Limited for 25 years valid till 2036.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of AIPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Long experience of the promoters and experienced management**

AIPL is promoted directed by Mr. Dharamveer Nachrani. Currently, the operations are headed by Mr. Nachrani and the second generation promoter Mr. Yash Nachrani, supported by a group of capable professionals. The management has around three decades of experience in the iron and steel industry. Prior to setting up the company, the promoters were into manufacturing of similar products through a proprietary concern. Acuite believes the long experience of the promoters coupled with healthy customer relationships will continue to support the business going forward.

- **Steady business risk profile**

The company has achieved provisional revenues of Rs.49.55 Cr till March, 2021 as compared to Rs.46.85 Cr in FY2020 and Rs.53.35 Cr in FY2019, registering a y-o-y growth of 5.77 per cent in FY2021 and a y-o-y decline of 12.19 per cent in the previous year. The decline in the top line in FY2020 was on account of early lockdown in foreign countries and subsequent nationwide lockdown, however the revenue improved in FY21 due to the bullish trend in the steel sector. The company has achieved revenues of Rs.14.05 Cr till June'21 (prov.). 83 percent of the company's revenue is generated from export sales. Revenue from power sales remained fixed over the year due to power purchase agreement with Madhya Pradesh Power Corporation Limited. The management of the company is foraying into manufacturing of ferro alloys and 60 percent of Astha Ferro Alloys Private Limited's manufacturing produce is expected to be traded by AIPL, which provides healthy revenue visibility over medium term.

The profitability margins of the company improved to operating margin of 4.32 per cent in FY21 (provisional) as compared to 2.83 per cent in FY20. The PAT margins stood at 1.53 per cent as on FY2021 (provisional) as against 0.86 per cent as on FY2020. The margins improved in FY21 due to thrust in the iron & steel industry and decline in interest costs. Acuite believes the profitability margins of the company will improve over the medium term.

Weakness

- **Moderate financial risk profile**

The company's financial risk profile is marked by modest networth, moderate gearing and healthy debt protection metrics. The tangible net worth of the company improved to Rs.9.79 Cr as on 31st March, 2020 from Rs.9.38 Cr as on 31st March, 2019. Gearing of the company stood moderate at 1.50 times as on 31st March, 2020 as compared to 0.48 times as on 31st March, 2019. The increase in gearing level is due to increase in the utilization of packing credit due to heavy order flow in Dec' 20 and Mar' 21. Realisation from sales was less in FY20 due to the Covid-19 pandemic and early lockdown in foreign countries which led to increased utilization of short term funds. The debt of Rs.14.66 Cr comprises of PCFC limit of Rs.13.56 Cr and unsecured loans of Rs.1.10 Cr as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.62 times as on 31st March, 2020 as against 0.68 times as on 31st March, 2019. The healthy debt protection metrics of the company is marked by Interest Coverage Ratio at 2.40 times and Debt Service Coverage Ratio of 2.55 times as on 31st March, 2020. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.06 times as on 31st March, 2020. Acuite believes that going forward the financial risk profile of the company will improve backed by steady accruals.

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 150 days in FY2020 as compared to 62 days in FY2019. This is on account of increase in debtor period which stood at 81 days as on 31st March 2020 as compared to 27 days as on 31st March 2019. Debtor period increased due to increase in credit sales as there was early lockdown in foreign countries and hence payment got stuck. Acuite believes that the working capital operations of the company will remain intensive over the medium term as evident from the moderate collection mechanism of the company.

- **Susceptibility to volatility in steel prices and foreign exchange (forex) rates**

Since the company exports iron and steel products, exposure to risks pertaining to fluctuations in steel prices exists. Susceptibility to volatile forex rates arising from exports is hedged through forward contracts, where timing depends on the management's expectation of currency rates in the near term.

Rating Sensitivity

- Improvement in their growth in scale of operations while sustaining profitability margins
- Elongation in working capital cycle

Material Covenant

None

Liquidity Profile: Adequate

The company's liquidity is adequate marked by net cash accruals of Rs.0.86 Cr in FY2020 as against no long term debt repayment over the same period. The current ratio stood comfortable at 1.36 times as on 31st March, 2020 as compared to 2.68 times as on 31st March, 2019. The cash and bank balances of the company stood at Rs.1.28 Cr in FY2020 as compared to Rs.1.43 Cr in FY2019. The fund based limit remained utilized at 69 percent over the twelve months ended March, 2021. However, working capital intensive nature of operations is reflected from high Gross Current Assets (GCA) of 150 days in FY2020 as compared to 62 days in FY2019. The company availed a Covid loan of Rs.2.83 Cr. Acuite believes that going forward the liquidity position of the company will improve due to steady accruals.

Outlook: Stable

Acuite believes that the outlook on AIPL will remain 'Stable' over the medium term on account of the experience of the promoters, long track record of operations and steady business risk profile. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its top line and cash accruals, hence expanding its networth base. Conversely, the outlook may be revised to 'Negative' in case of any significant elongation in its working capital management leading to further deterioration of its gearing and liquidity position.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	49.55	46.85
PAT	Rs. Cr.	0.76	0.40
PAT Margin	(%)	1.53	0.86
Total Debt/Tangible Net Worth	Times	1.74	1.50
PBDIT/Interest	Times	2.58	2.40

Status of non-cooperation with previous CRA

- India Ratings and Research, vide its press release dated Dec 4, 2017 had denoted the rating of Astha Innovations Private Limited as 'IND BB; ISSUER NOT COOPERATING'.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- 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 (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
PCFC/PC*	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+/Stable (Assigned)

* Cash Credit (sublimit of PCFC/PC): Rs.2.00 Cr

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About Acuite Ratings & Research:

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