Press Release

Astha Innovations Private Limited

September 07, 2021

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.18.50 Cr. (enhanced from Rs.10.00 Cr)
Long Term Rating	ACUITE BB+/Stable (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE BB+' (read as ACUITE double B plus)** to the Rs.18.50 Cr bank facilities of Astha Innovations Private Limited (AIPL). The outlook remains '**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

Acuité 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. Acuité 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 revenues of Rs.49.56 crores in FY2021 (prov.) as compared to revenues of Rs.46.85 crores in FY2020, registering a y-o-y growth of 5.78 per cent in FY2021. Revenue in FY21 improved despite Covid induced pandemic. The company has achieved revenues of Rs.23.29 crores till July, 2021 (Prov.). 83 percent of the company's revenue is generated from export sales in FY21. 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 around 60 percent of Astha Ferro Alloys Private Limited (AFPL)'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 4.99 per cent in FY21 (provisional) as compared to 2.83 per cent in FY20. The PAT margins stood at 1.62 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. Acuite believes the profitability margins of the company will improve over the medium term.

Weakness

- **Moderate financial risk profile**

The company's moderate financial risk profile is marked by modest networth, moderate gearing and comfortable debt protection metrics. The tangible net worth of the company improved to Rs.10.55 Cr as on 31st March, 2021 (prov.) from Rs.9.79 Cr as on 31st March, 2020. Gearing of the company stood moderate at 1.47 times as on 31st March, 2021 (prov.) as compared to 0.50 times as on 31st March, 2020. The debt of Rs.15.53 crore comprises of PCFC limit of Rs.11.70 Cr, Covid loan of Rs.2.83 Cr and unsecured loans of Rs.1.00 Cr as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.58 times as on 31st March, 2021 (prov.) as against 1.62 times as on 31st March, 2020. The comfortable debt protection metrics of the company is marked by Interest Coverage Ratio at 2.21 times and Debt Service Coverage Ratio of 2.12 times as on 31st March, 2021 (prov.). The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.08 times as on 31st March, 2021 (prov.). Acuité believes that going forward the financial risk profile of the company will improve backed by steady accruals and no major debt funded capex plans.

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 158 days in FY2021 (prov.) as compared to 150 days in FY2020. This is on account of increase in loans and advances as AIPL has advanced around Rs.4 Cr to its group company, AFPL as on 31st March 2021 (prov.). Debtor period improved to53 days in FY21 (prov.) in comparison to 79 days in FY2020. Acuité believes that the working capital operations of the company will remain intensive over the medium term as evident from the high other current assets 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 exits. 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 and 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.1.26 Cr in FY2021 (prov.) as against no long term debt repayment over the same period. The current ratio stood comfortable at 1.73 times as on 31st March, 2021 (prov.) as compared to 1.36 times as on 31st March, 2020. The cash and bank balances of the company improved to Rs.1.70 Cr in FY2021 (prov.) as compared to Rs.1.28 Cr in FY2020. The fund based limit remained utilised at 70 percent over the seven months ended July, 2021. However, working capital intensive nature of operations is reflected from high Gross Current Assets (GCA) of 150 days in FY2021 (prov.) as compared to 150 days in FY2020. The company availed a Covid loan of Rs.2.83 Cr. Acuité believes that going forward the liquidity position of the company will improve due to steady accruals.

Outlook: Stable

Acuité 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.	49.56	46.85
PAT	Rs. Cr.	0.80	0.40
PAT Margin	(%)	1.62	0.86

Total Debt/Tangible Net Worth	Times	1.47	1.50
PBDIT/Interest	Times	2.21	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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
29 July 2021	PCFC/PC	Long term	10.00	ACUITE BB+/Stable (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank of Baroda	PCFC/PC*	Not Applicable	Not Applicable	Not Applicable	18.50	ACUITE BB+/Stable (Reaffirmed)

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

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About Acuité Ratings & Research:

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