

Press Release

Astha Innovations Private Limited

December 02, 2022



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	18.50	ACUITE BB Stable Downgraded	-
Total Outstanding Quantum (Rs. Cr)	18.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Rationale for the rating

The rating downgrade is on account of decline in AIPL's exports. In the current fiscal year, the government imposed 15 per cent export duty on a range of finished steel products, which made the exports less attractive and added to the total decline.

However, the rating derives comfort from the significant improvement in the business risk profile of Astha Group characterized by substantial increase in the operating income along with surge in the profitability margins. The rating also considers the experienced management and the long standing operations of the company. These strengths are, however, offset by the moderate financial risk profile characterized by moderate gearing & debt coverage measures, the exposure to the volatility in commodity prices and fluctuations in the foreign exchange rates.

About the Company

Incorporated in 2001, Astha Innovations Private Limited (AIPL) is promoted by Mr. Dharamveer Nachrani and is engaged in trading of iron and steel products. The company is based in Chhattisgarh and its product portfolio includes sponge iron, pig iron, MS billets, bloom, silico manganese, ferro manganese, ferro silicon, MS angles, MS channels and more. Around 91 per cent of the company's revenue comes from export sales to countries like Nepal, Sri Lanka and Belgium. AIPL is a Star Export House certificate holder for its performance in the export sector. In addition, the company has a wind power plant with 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.

About the Group

Incorporated in 2021, Astha Ferro Alloys Private Limited (AFAPL) is a group company of AIPL and is engaged in the manufacturing of ferro alloys. The commercial operations started from

October, 2021. Based in Chhattisgarh, AFAPL is promoted by Mr. Yash Nachrani and Mr. Dharamveer Nachrani.

Analytical Approach

Previously, Acuité had taken the standalone business and financial risk profiles of Astha Innovations Private Limited (AIPL). Now, Acuité has considered 'consolidation approach' to include Astha Innovations Private Limited (AIPL) and its group company Astha Ferro Alloys Private Limited (AFAPL), incorporated in 2021, together referred to as the 'Astha Group' (AG). The consolidation is in the view of common management, financial linkages between the entities and expected operational linkages in the medium term. Additionally, Astha Innovations Private Limited (AIPL) have given corporate guarantee for the term loan of Astha Ferro Alloys Private Limited (AFAPL). Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Long standing operations and experienced promoters**

The promoter of the group, Mr. Dharamveer Nachrani possess three decades of experience in the iron and steel industry and heads the operations of the group along with the second generation promoter Mr. Yash Nachrani and a set of capable professionals. Acuité believes that the experienced management and the long track record of the company of over two decades will continue to support the group in maintaining the long standing relations with its customers and suppliers thereby achieving the growth plans.

- **Significant growth in the operating income**

The revenue of the group stood at Rs.76.96 Cr in FY2022 as compared to Rs.49.51 Cr in FY2021. Further, the group achieved operating income of Rs.52.80 Cr till October, 2022 (provisional). The growth in revenue is primarily on account of commissioning operations of AFAPL.

Moreover, the operating margin of the group increased to 6.27 per cent in FY2022 as compared to 4.07 per cent in FY2021. The PAT margin rose to 2.28 per cent in FY2022 as compared to 1.60 per cent in FY2021. The ROCE levels increased to 8.44 per cent in FY2022 as compared to 6.30 per cent in FY2021.

Going forward, Acuité believes that the business risk profile of the group is expected to improve further owing to the increase in the manufacturing activities of AFAPL alongside the rising export opportunities of AIPL.

Weaknesses

- **Moderate financial risk profile**

The group's moderate financial risk profile is reflected by improving net worth base, moderate gearing and modest debt protection measures. The tangible net worth of the company increased to Rs.27.39 Cr as on March 31, 2022 from Rs.11.75 Cr as on March 31, 2021 due to accretion of reserves. Acuité has treated unsecured loans of Rs.10.05 Cr in FY2022 as part of net worth in lieu of subordination to bank debts. Gearing of the company stood at 1.02 times as on March 31, 2022 as compared to Rs.1.24 times as on March 31, 2021, whereas, Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.27 times as on March 31, 2022 as against 1.35 times as on March 31, 2021. The moderate debt coverage metrics is marked by Interest Coverage Ratio (ICR) at 2.78 times as on March 31, 2022 and Debt Service Coverage Ratio at 1.98 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.11 times as on March 31, 2022. Acuité believes that the financial risk profile of the group will continue to remain above average over the medium term, in absence of any major debt funded capex plans.

• Working capital intensive nature of operations

The working capital intensive nature of operations of the group is marked by gross current asset (GCA) of 147 days in FY2022 as against 136 days in the previous year. The GCA days are primarily on account of moderate inventory holding. The inventory period stood at 52 days as on 31st March, 2022 as compared to nil days as on 31st March, 2021 on account of rise in the consolidated inventory requirement due to the manufacturing activities of AFAPL. The debtor period stood at 56 days as on March 31, 2022 as compared to 52 days in the previous year owing to the elongation in the payments from the export clientele of AIPL. Going forward, Acuité believes that the working capital management of the group will remain intensive over the medium term as evident from the rising inventory levels.

• Susceptibility to volatile prices of the products and foreign exchange rates:

The group exports the steel products used in the construction business, this exposes it to the risks pertaining in the fluctuating steel prices. The group hedges the volatile forex rates through forward contracts.

Rating Sensitivities

- Growth in the scale of operations of the group along with increase in the profitability margins
- Elongation in the working capital cycle
- Decline in the total exports

Material covenants

None

Liquidity position: Adequate

The group's liquidity position is adequate marked by net cash accruals of Rs.3.09 Cr in FY2022 as against long term debt repayment of Rs. 0.71 Cr over the same period. The cash and bank balances of the group stood at Rs.1.53 Cr in FY2022. The current ratio stood moderate at 1.16 times as on 31st March, 2022 as compared to 1.39 times as on 31st March, 2021. The fund based limit utilization is at 55 per cent over the six months ended October, 2022. However, the working capital management of the company is intensive in nature marked by Gross Current Assets (GCA) of 147 days in FY2022 as compared to 136 days in FY2021 due to rising inventory holding. Acuité believes that going forward the company's liquidity position will remain at similar levels due to gradually improving 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, experienced management and the increasing scale of operations. The outlook may be revised to 'Positive' in case of significant growth in revenue or operating margins from the current levels. Conversely, the outlook may be revised to 'Negative' in case of further decline in revenue or operating margins, deterioration in the financial risk profile or further 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.	76.96	49.51
PAT	Rs. Cr.	1.75	0.79
PAT Margin	(%)	2.28	1.60
Total Debt/Tangible Net Worth	Times	1.02	1.24
PBDIT/Interest	Times	2.78	2.39

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

CRISIL, vide its press release dated September 29, 2022 had denoted the rating of Astha Innovaions Private Limited as 'CRISIL BB/Stable; ISSUER NOT COOPERATING'.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitie: <https://www.acuite.in/view-rating-criteria-61.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
07 Sep 2021	Packing Credit	Long Term	18.50	ACUITE BB+ Stable (Reaffirmed)
29 Jul 2021	Packing Credit	Long Term	10.00	ACUITE BB+ Stable (Assigned)

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	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	18.50	ACUITE BB Stable Downgraded (from ACUITE BB+)

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About Acuité Ratings & Research

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