



RATINGS

No. CARE/HRO/RR/2023-24/1042

Shri Ronak Jaju
Chief Financial Officer
Azad Engineering Private Limited
Plot No : 90/C, D, Phase 1, IDA,
Jeedimetla, Hyderabad,
Hyderabad
Telangana 500055

April 19, 2023

Dear Sir,

Credit rating of Azad Engineering Private Limited for Rs. 142.00 cr

Please refer to our letter(s) dated April 6, 2023 on the above subject.

2. The rationale for the rating is attached as an **Annexure-I**.
3. We request you to peruse the annexed document and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by April 20, 2023, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

Y Tejeshwar Reddy

Y Tejeshwar Reddy
Assistant Director
tejeshwar.reddy@careedge.in

Encl.: As above

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CIN-L67190MH1993PLC071691

Annexure-I
Rating Rationale
Azad Engineering Private Limited

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	142.00	CARE BBB+; Stable	Assigned
Non Convertible Debentures	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to facilities of the Azad Engineering Private Limited (AEPL) draws strength from experienced promoter and leadership team, established relationship with reputed OEMs, track record of supplying components to OEMs & advanced infrastructure, healthy growth in revenue with satisfactory margins and comfortable financial profile with projected improvement. The rating is however constrained by the elongated working capital cycle and moderate scale of operations.

It is noted that AEPL has not placed the proposed Non Convertible Debentures rated by CARE Ratings and there is no outstanding under the said issue as on date, hence the rating for issue stands withdrawn.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Increase in scale of operations with total operating income (TOI) improving to ₹350 crore and above while maintaining profit before interest depreciation and tax (PBIDT) margin 30% on a sustained basis.
- Improvement in liquidity position with average working capital utilization levels falling below 70% and operating cycle shortening to less than 150 days on a sustained basis.

Negative factors

- Significant decline in the TOI or PBIDT by more than 30% y-o-y
- PBIDT margin falling below 20%, going forward on a sustained basis.
- Overall gearing deteriorating to more than 1.0x in future

Analytical approach: Standalone

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Outlook: Stable

Stable outlook assigned to rating considers satisfactory operations of the company in the near term with achievement of projected performance based on orders in hand and committed upcoming orders from the existing as well as new customers.

Key strengths

Experienced promoters and leadership team:

The promoter Rakesh Chopdar has more than 25 years of experience in precision engineering industry. He has developed healthy relationship with the customers through timely execution, consistent quality and achieving requisite certifications for the processes followed. Business operations are led by professionals having an average experience of more than 16 years in their individual field of expertise and having played key roles in Siemens, Godrej Aerospace, Toshiba, and Mercedes India.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

CARE Ratings Limited

Established relationships with reputed OEMs:

AEPL has running long-term contracts with reputed customers in domestic & export markets. The business can be broadly divided into two business verticals – Energy and Aerospace. The company is a supplier to established and known OEMs like GE, Mitsubishi, BHEL, Siemens, Toshiba etc in the energy segment and Honeywell, GE Aviation, Boeing, Eaton, HAL etc in the Aerospace segment. The export sales are well diversified to regions such as US, UK, Europe, Japan, and Middle East. The market for turbine blades is valued around ₹ 12,600 crores. AEPL has obtained 1400+ product qualifications and 45+ process qualifications in last 10 years which provides it an edge over competition as product and process qualification is capital and time consuming. The company is one of the four major global players offering similar products.

Established track record and advanced infrastructure:

The company has an established facility at Hyderabad. The company has been adding capacity since inception. At present the infrastructure includes Forge Shop, Heat Treatment Shop, Hi-Tech CNC Machines, State of the art Laboratory, state-of-the-art Inspection Facility, Heavy Machining Shop, Manufacturing software etc. Moreover, the company has obtained various international certifications namely National Aerospace and Defence Contractors Accreditation Program (NADCAP), ISO 9001:2015 (QMS), AS9100 D, ISO 14001: 2015 (EMS), BS 45001: 2018 (OHSAS) and ISO 27001: 2013 (ISMS) for its facilities. It has recently been certified for supply of components for nuclear turbines from EDF, France. The company has been a qualified Other Equipment Manufacturer for many of its clients since inception.

Healthy growth in revenue with satisfactory margins:

The total operating income (TOI) of company has depicted a CAGR of 24% in for five years ended March 31, 2022. TOI has increased from ₹ 82.56 crore in FY18 to ₹ 193.19 crore in FY22 and further reached to ₹ 214 crore for 11MFY23. The same has been achieved because of consistent supply of products with focus on the quality of the components supplied. Major sales of company are in form of exports which commands better profitability margins. Profitability of company has remained satisfactory with PBILD margins of more than 30% in last five years barring FY21 (COVID-19). The company commands profitability margins because of critical nature of components manufactured and absence of notable competition.

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Comfortable financial profile with projected improvement:

The financial profile of company marked by overall gearing of 1.34x on March 31, 2022, is comfortable. Total debt of ₹ 178.71 crore consisted of term loan of ₹ 82.91 crore, working capital in form of PCFC ₹ 53.80 crore and optionally convertible debentures of ₹ 42.00 crore from DMI Finance (DMI). The overall gearing is projected to improve to below 0.40x, because of improvement in the net worth of company through ploughed back profits and compulsorily convertible debentures (CCD) of ₹ 160.00 crore by Piramal Structured Credit Opportunities Fund (Piramal) which replaced funds from DMI and ₹ 80 crore from group of HNIs. The long-term funding availed has been deployed for enhancing capacity by adding advanced CNC Machines and auxiliary equipment.

Stable industry outlook:

The global power demand was expected to grow by 2.4% in 2022 by The International Energy Agency (IEA) in its last report released in July 2022. While electricity demand is currently expected to continue a similar growth path into 2023, the outlook is clouded by economic turbulence and uncertainty over how fuel prices could impact the generation mix. The core of power generation irrespective of the fuel used i.e., turbine, remains critical equipment for the industry. AEPL through its capabilities build over more than a decade is supplying the critical parts of the turbines to reputed OEMs in the industry. The aviation industry is expecting profit in CY2023 after losses of USD 6.9 billion in CY2022. The industry hit by COVID-19 related restrictions has seen growth in travel in both business and leisure segment. The

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growth in travel shall warrant industry to upgrade the fleet apart from maintenance of the existing fleet, which provides opportunity for aircraft OEMs and AEPL that supplies to these OEMs.

Key weaknesses

Elongated working capital cycle:

The working capital cycle is elongated on account of higher receivables as on March 31, 2022, as the export receivables have credit period of 120 - 150 days and payment from few domestic customers was delayed. The inventory holding has increased from 90 days on March 31, 2021, to 113 days as on March 31, 2022, due to increase in inventory and longer lead time. In view of the increased order book position and avoiding shortage of raw material due to Russia Ukraine War, company has procured raw material in advance.

Moderate scale of operations:

The company's business risk profile is constrained by its modest scale of operations and turnover, though there has been steady rise in the revenues. Thus, the company is yet to enjoy any significant economies of scale and bargaining power with the customers. It may be noted that the clients of company benefit from both expertise and low -cost conversion offered compared to OEMs inhouse operations and existing vendors, which results in repeat orders from the established OEMs.

Liquidity: Strong

Liquidity is marked by strong accruals against repayment obligations of ₹ 25 crore and cash & cash equivalents of ₹ 67.38 crore on December 31, 2022 (₹ 17.66 crore on March 31, 2022). The gearing is set to improve from 1.34x on March 31, 2022, to 0.36x for March 31, 2023, due to ploughing back of profits and CCDs raised from Piramal. Though the bank limits have been utilised to average of 95%, company has maintained minimum free cash of ₹ 2 crore in last 12 months ended January 31, 2023. Current ratio remained 1.13x for FY21 and FY22. The company invests steadily in addition of machines to support the customer' demand. The available funds from operations and CCD seems sufficient to fund ongoing capex.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

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About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Manufacturing	Industrial Products

Azad Engineering Private Limited (AEPL) incorporated by Mr. Rakesh Chopdar in 1983, is engaged into manufacturing of precision forged and machined components for clean energy, aerospace, defence, oil & gas, standalone power supply (SPS) as required by OEMs, with its manufacturing unit in Hyderabad. Company manufactures all types of blades for both radial & axial flow.

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For the period ended / as at March 31,	2020 (12m, A)	2021 (12m, A)	2022 (12m, A)
Working Results			
Net Sales	122.09	119.39	185.35
Total Operating income	122.09	123.12	193.19
PBILDT	41.41	31.31	59.70
Interest	6.10	4.89	12.69
Depreciation	6.95	8.87	13.31
PBT	29.16	16.26	38.31
PAT (after deferred tax)	20.47	10.68	27.97
Gross Cash Accruals	28.64	20.99	42.96
Financial Position			
Equity Capital	1.51	1.51	1.51
Networth	86.80	88.26	133.61
Total capital employed	153.68	191.31	330.70
Key Ratios			
Growth			
Growth in Total income (%)	0.80	-2.21	55.24
Growth in PAT (after deferred tax) (%)	5.84	-47.80	161.82
Profitability			
PBILDT/Total Op. income (%)	33.92	25.43	30.90
PAT (after deferred tax)/ Total income (%)	16.77	8.68	14.48
ROCE (%)	25.66	13.90	19.54
Solvency			
Debt Equity ratio (times)	0.52	0.65	0.93
Overall gearing ratio(times)	0.71	0.99	1.34
Interest coverage(times)	6.79	6.40	4.71
Term debt/Gross cash accruals (years)	1.58	2.72	2.91
Total debt/Gross cash accruals (years)	2.15	4.14	4.16
Liquidity			
Current ratio (times)	1.11	1.13	1.13
Quick ratio (times)	0.89	0.87	0.76
Turnover			
Average collection period (days)	108	139	120
Average inventory (days)	67	90	113
Average creditors (days)	107	138	122
Operating cycle (days)	68	92	111

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.: Not applicable

OR

Disclosure of Interest of Managing Director & CEO: Not applicable

Rating history for last three years: Please refer Annexure-2

Details of rated facilities: Please refer Annexure-3

Complexity level of various instruments rated: Annexure 4

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-5

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Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures		31-03-2023	10	31-03-2030	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	55.00	CARE BBB+; Stable
Fund-based - LT-Proposed fund based limits		-	-	-	27.14	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	October 2027	59.86	CARE BBB+; Stable

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE BBB+; Stable (03-Mar-23)	-	-
2	Fund-based - LT-Term Loan	LT	59.86	CARE BBB+; Stable				
3	Fund-based - LT-Cash Credit	LT	55.00	CARE BBB+; Stable				
4	Fund-based - LT-Proposed fund based limits	LT	27.14	CARE BBB+; Stable				

*Long term / Short term

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Annexure-3: Details of Rated Facilities
1. Long Term Facilities
1.A. Term Loans

Sr. No.	Name of Bank / Lender	Rated Amount (₹ crore)	Debt Repayment Terms
1.	Union Bank of India	24.90	Repayment in quarterly instalments by October 1, 2027
2.	IndusInd Bank Ltd.	19.96	Repayment in quarterly instalments by October 1, 2027
3.	ICICI Bank Ltd.	15.00	Repayment in quarterly instalments by October 1, 2027
	Total	59.86	

1.B. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (₹ crore)
1.	IndusInd Bank Ltd.	21.50
2.	Union Bank of India	20.00
3.	ICICI Bank Ltd.	13.50
	Total	55.00

1.C. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (₹ crore)
1.	Proposed	27.14
	Total	27.14

Total Long Term Facilities: ₹142.00 crore

Total Facilities (1.A+1.B+1.C) : ₹142.00 crore

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Complex
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Proposed fund based limits	Simple
4	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Annexure-5: Detailed explanation of covenants of the rated instruments/facilities:

Not applicable

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Contact us

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(This follows our Press Release for the entity published on April 07, 2023)

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

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