



Press Release

Aeroflex Industries Limited

July 27, 2022

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator (Simple / High / Complex)
Long Term Fund Based Bank Facilities	37.00	IVR BBB- (Outlook:Stable) [IVR Triple B Minus with Stable Outlook]	Assigned	Simple
Total	37.00	INR Thirty Seven Crores Only		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Aeroflex Industries Limited factors experience of the promoters in the hose manufacturing business and a significant improvement in the operating financial performance of FY22, strong clientele base with repeat orders and a healthy financial risk profile of the company backed by strong leverage position and coverage indicators.

However, the rating is constrained by the volatility in the input cost, intense competition in the industry, working capital intensive nature of business and the risk associated with the inherent cyclical nature in the industry.

Key Rating Sensitivities:

Upward Factors

- Substantial increase in profitability and cash accrual, thereby further improving debt protection metrics
- Steady improvement and sustenance in Gross Current Asset (GCA) days, thereby improving financial risk profile of the company.



Press Release

Downward Factors

- Steep decline in revenue or profitability, leading to cash accrual less than Rs 8 crore
- Any large, debt-funded capex or sizeable stretch in the working capital cycle, impacting financial profile

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive industry experience of promoter:** The promoter has two decades of experience in the hose manufacturing business; his strong understanding of market dynamics and healthy relations with customers and suppliers should continue to support the business.
- **Healthy financial risk profile:** The company has a Comfortable net worth of Rs.85.67cr leading to a low gearing of 0.46X in FY22. The debt protection metrics of the company as indicated by ISCR & DSCR stand strong at 7.54X and 2.42X respectively in FY22 improving from 2.53X & 1.48X in FY21. Steady accretion to reserves should support the financial risk profile over the medium term
- **Improving Scale of Operations –** The company's scale of operations have been improving on a y-o-y basis as reflected from an improved TOI of Rs 240.80cr in FY22 vis-à-vis Rs 144.73cr in FY21 backed by an increase in volumes as the company has started catering to OEM segment and new product development. The profit margins of the company as reflected by operating profit margin and net profit margin stands improved at 19.56% & 11.44% in FY22 vis-à-vis 15.62% & 4.16% in FY21. Revenue is expected to improve going ahead on account of repeat orders from existing customers.

Key Rating Weaknesses



Press Release

- **Exposure to volatile raw material price:** Since cost of procuring the key raw material (steel) accounts for a bulk of production cost, even a slight variation in price can drastically impact the operating margin. Further, intense competitive pressure limits the ability to pass on any price hike to customers.
- **Working Capital Intensive Nature of Operation –** The operating cycle of the company remained elongated at 63days as on 31st March 2022 led by an inventory of 66 days which is required to be maintained in the business. Debtors were in accordance with the credit policy offered to customers at 67-80 days. The working capital cycle is likely to remain elongated.

Analytical Approach: Standalone

Applicable Criteria

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation Non- Financial Sector](#)

Liquidity – Adequate

The company has an adequate liquidity profile as reflected by healthy Cash Accruals of Rs 32.36cr as against debt repayment obligation of Rs 14.14cr in FY22. The cash & bank balance as on 31st March 2022 stands at Rs 8.31cr. The current ratio stands moderate at 1.71X in FY22. Further, the promoter's ability to infuse funds is strong as reflected historically. Owing to the healthy profitability and cash accruals, the coverage ratios are expected to be comfortable.

About the Company



Press Release

AIL, incorporated in 1993 by Mr Yusuf Kagzi, manufactures stainless steel corrugated flexible hoses and assemblies at its factory in Navi Mumbai, Maharashtra. Aeroflex is involved in manufacturing of Stainless Steel (SS) Corrugated (Braided and Non-Braided) Flexible Hoses and Stainless-Steel Braiding's and Assemblies. It manufactures a full range of metallic flexible hoses and hose assemblies in authentic stainless steel with grades AISI 304, 321, 316 & 316L, conforming to international quality standards. The stainless steel corrugated flexible hoses conform to BS 6501 part 1& ISO 10380 and are manufactured as per type A, B, and C flexibility. Sat Industries Ltd (SIL) is the holding company of AIL. SIL is listed on Bombay Stock Exchange for more than 32 years and is engaged in multiple businesses such as manufacturing, education, leasing, finance, investments, domestic trading and import and export through subsidiaries and associates

Financials (Standalone):

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	144.73	240.80
EBITDA	22.61	47.11
PAT	6.02	27.57
Total Debt	53.07	39.13
Tangible Networth	57.54	85.76
Ratios		
EBITDA Margin (%)	15.62	19.56
PAT Margin (%)	4.16	11.44
Overall Gearing Ratio (x)	0.92	0.46

Status of non-cooperation with previous CRA: NA

Any other information:

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	2021-22	2020-21	2019-20



Press Release

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	2021-22	2020-21	2019-20
1.	Fund Based	Long Term	37.00	IVR BBB- (Outlook:Stable)	NA	NA	NA
	Total*		37.00				

**Details in Annexure I*

Name and Contact Details of the Rating Analyst:

Name: Siddhi Kadakia Tel: (022) 6239 6023 Email: siddhi.kadakia@infomerics.com	Name: Noman Agashiwala Tel: (022) 6239 6023 Email: noman.agashiwala@infomerics.com
--	--

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of	Coupon	Maturity	Size of	Rating
------------------	---------	--------	----------	---------	--------



Press Release

	Issuance	Rate/ IRR	Date	Facility (Rs. Crore)	Assigned/ Outlook
Long Term Fund Based Bank Facilities - FCTL I	-	-	-	20.66	IVR BBB- (Outlook:Stable) (IVR Triple B Minus)
Long Term Fund Based Bank Facilities - FCTL II	-	-	-	3.09	
Long Term Fund Based Bank Facilities - GECL	-	-	-	7.91	
Long Term Fund Based Bank Facilities - Proposed	-	-	-	5.34	

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details <https://www.infomerics.com/admin/prfiles/Lender-ALL-220722.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: The Terms of sanction include standard covenants normally stipulated for such facilities.

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	FCTL	Simple
2.	GECL	Simple

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.