

Press Release

AVK ISPAT PRIVATE LIMITED

05 December, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 17.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) on the Rs. 17.00 crore bank facilities of AVK ISPAT PRIVATE LIMITED. The outlook is '**Stable**'.

The Mumbai-based AVK Group constitutes AVK Ispat Private Limited (AVKIPL) established in 2010 and Alphonso Steel Private Limited (ASPL) established in 2015. The companies are engaged in the trading of MS metal scrap (ferrous and non-ferrous). The group firm, Siddhivinayak Steel (SS) established in 1990, was engaged in the trading of metal scrap. However, the firm was shut in 2015 and business transferred to the above mentioned companies.

Key Rating Drivers

Strengths

• Experienced management

The AVK Group was promoted by Mr. Daulatram Sewda who possesses more than three decades of experience in the steel industry. The Directors, Mr. Kamal Sewda and Mr. Vimal Sewda have experience of around two decades in the industry.

• Moderate scale of operations

The scale of operations is moderate with operating income of Rs.198.70 crore in FY2017 (Provisional) as against Rs. 68.19 crore in FY2016. The growth was on account of addition of customers and increase in sales to existing customers. The company registered revenue of Rs.106 crore for the period April 2017 to September 2017. SMERA expects moderate growth in revenue over the medium term on the back of its long standing relations with customers and experienced management.

• Moderate financial risk profile

The financial risk profile is moderate marked by net worth of Rs.16.91 crore as on 31 March, 2017 (Provisional) as against Rs.12.04 crore as on 31 March, 2016. The networth includes unsecured loans of Rs.12.71 crore in FY2017 (Provisional) as against Rs.9.42 crore in FY2016 treated as quasi equity. The gearing (debt-to-equity ratio) stood at 0.16 times as on 31 March, 2017 (Provisional) compared to 0.09 times in the previous year. The total debt of Rs. 2.77 crore, consists of working capital borrowings of Rs. 2.77 crore as on 31 March, 2017. The total outstanding liabilities to tangible networth (TOL/TNW) stood at 1.63 times in FY2017 (Provisional) as against 1.04 times in the previous year. The interest coverage ratio (ICR) improved to 12.02 times in FY2017 (Provisional) as against 2.59 times in FY2016. In FY2017, the net cash accruals to total debt (NCA/TD) stood at 0.57 times.

• Comfortable working capital cycle

The group has moderate working capital cycle marked by gross current assets (GCA) of 79 days in FY2017 as against 127 days in FY2016. This is on account of inventory holding of 19 days in FY2017 as against 14 days in FY2016 and debtors of 56 days in FY2017 as against 101 days in FY2016. The average cash credit utilisation stood at 53 per cent for the six months ended 31 August, 2017.

• Established relations with customers and suppliers

The AVK group has established relations of more than a decade with customers and suppliers. The group deals with reputed suppliers such as AOI Sanyo Co. Limited, Uttam Galva Steels Limited, Asian Colour Coated Ispat Limited, JSW Steel Ltd among others.

Weaknesses**• Thin profit margins, intense competition**

The AVK group operates in a highly fragmented industry wherein the presence of large number of players in the unorganised sector limits its bargaining power with customers. The operating margins (EBIDTA) declined to 1.12 per cent in FY2017 (Provisional) from 1.40 per cent in FY2016. The Profit after tax margins (PAT) fell to 0.80 per cent in FY2017 (Provisional) from 0.73 per cent in FY2016. The margins have declined due to intense competition in the metal trading business. The profitability is expected to remain low due to the trading nature of business.

• Profitability susceptible to volatility in metal prices and forex rates

The group's profitability is vulnerable to fluctuations in iron and steel prices that can have an adverse impact on profitability. Approximately 35 per cent of total purchases are imported from Japan. As a result, the company is exposed to fluctuations in forex rates for the unhedged imports. The company sells its products in the domestic market.

Analytical Approach

SMERA has consolidated the financial and business risk profiles of AVK Ispat Private Limited (AVKIPL) and Alphonso Steel Private Limited (ASPL) together referred to as the AVK Group. The consolidation is in view of the common ownership and similarities in the lines of business.

Outlook: Stable

SMERA believes that the AVK Group will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of sustained growth in revenues and operating profitability while improving the financial risk profile and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or deterioration in the financial risk profile or working capital management.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), the AVK Group reported net profit after tax (PAT) of Rs. 1.59 crore on operating income of Rs.198.70 crore as against PAT of Rs. 0.50 crore on operating income of Rs. 68.19 crore in the previous year. The net worth (includes quasi equity) stood at Rs. 16.91 crore as on 31 March, 2017 (Provisional) as against Rs. 12.04 crore in the previous year.

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

CRISIL, vide release dated September 29, 2017 has flagged the company as 'Issuer non cooperative' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
25 Oct, 2017	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.80	SMERA BBB- / Stable (Assigned)
	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.20	SMERA BBB- / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.00 (Enhanced from Rs. 2.80 crore)	SMERA BBB- / Stable (Reaffirmed)

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ABOUT SMERA

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