

Press Release

AVK Ispat Private Limited

March 04, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 17.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the Rs. 17.00 crore bank facilities of AVK ISPAT PRIVATE LIMITED (AIPL). The outlook is '**Stable**'.

The Mumbai-based AVK Group constitutes AIPL 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), flat and round steel products and TMT bars. The group firm, Siddhivinayak Steel established in 1990, was engaged in the trading of metal scrap. However, the firm was shut in 2015 and business was transferred to the above mentioned companies.

Analytical Approach

Acuité has consolidated the financial and business risk profiles of AIPL and ASPL together referred to as the AVK Group. The consolidation is in view of the common ownership and similarities in the lines of business. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management**

AVK Group was established in 1990 by Mr. Daulatram Sewda and is currently managed by Mr. Vimal Sewda and Mr. Kamal Sewda. The group has established track record of nearly three decades in the same line of business. The promoters possess vast experience of over four decades in this industry and are ably assisted by an experienced second line of management.

Acuité believes that the group will benefit from experienced management which will help the firm to maintain long standing relations with its customer and suppliers.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by tangible net worth of Rs.14.06 crore as on 31 March, 2018. The gearing stood moderate at 1.45 times on 31 March, 2018. The total debt of Rs.20.36 crore as on 31 March, 2018 include working capital borrowing of Rs.16.95 crore and unsecured loan of Rs.3.41 crore. Interest Coverage Ratio (ICR) stood at 5.47 times for FY2018 against 5.01 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood moderate at 2.65 times in both FY2018 and FY2017.

Going forward, Acuité expects the group to improve its financial risk profile in near to medium term in the absence of major debt funded capex plan.

- **Moderate working capital intensive**

AVK Group operates in moderate working capital nature marked by Gross Current asset (GCA) days of 92 for FY2018. This is majorly on account of collection period of 72 days for FY2018 against 54 days in FY2017. Inventory holding stood at 8 days in FY2018 against 19 days in FY2017.

Acuité believes that the group will continue to effectively manage its working capital cycle in order to maintain a stable credit profile.

Weaknesses

- **Flattish revenue with fluctuating profitability margins**

AVK Group has registered revenue growth with compounded annual growth rate (CAGR) of 70.14 percent during the last three years ended 31 March, 2018. However, the company reported flattish revenue of Rs.197.40 crore in FY2018 as against Rs.198.25 crore in FY2017. Further, the group has booked revenue of Rs.180.94 crore for April to January, 2019. The operating margins of the group are thin at 1.07 percent in FY2018 as against 0.53 percent in FY2017 and 1.40 percent in FY2016. PAT margins stood at 0.77 percent in FY2018 against 0.70 percent in FY2017 and 0.73 percent in FY2016. The profitability is expected to remain low due to the trading nature of business.

Acuité believes that the group's ability to register growth in revenue while maintaining adequate profitability will be key rating sensitivity factor.

- **Profitability susceptible to volatility in metal prices and forex rates**

The group's profitability is vulnerable to fluctuations in iron and steel prices that could have an adverse impact on profitability. Approximately 30 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.

Liquidity

AVK Group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The cash accrual of AVK group is estimated to remain around Rs.1.50 to 3.00 crore during 2019 -21. Modest net worth base and moderate working capital management has led to high utilisation of its bank lines at about 95 percent over six months through January, 2019. The current ratio of the group stood moderate at 1.48 times as on March 31, 2018. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of moderate cash accruals as against no repayments over the medium term

Outlook: Stable

Acuité believes that AVK Group will maintain 'Stable' outlook and continue to benefit from the experience of its promoters in the metal trading industry. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while maintaining the profitability and capital structure. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or working capital requirements further deteriorating financial risk profile and liquidity position

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	197.40	198.25	68.19
EBITDA	Rs. Cr.	2.12	1.04	0.95
PAT	Rs. Cr.	1.52	1.39	0.50
EBITDA Margin	(%)	1.07	0.53	1.40
PAT Margin	(%)	0.77	0.70	0.73
ROCE	(%)	10.17	15.69	17.98
Total Debt/Tangible Net Worth	Times	1.45	0.55	0.60
PBDIT/Interest	Times	5.47	5.01	2.59
Total Debt/PBDIT	Times	7.41	2.71	4.16
Gross Current Assets (Days)	Days	92	83	127

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Dec-2017	Cash Credit	Long Term	17.00	ACUITE BBB- / Stable (Reaffirmed)
25-Oct-2017	Cash Credit	Long Term	2.80	ACUITE BBB- / Stable (Assigned)
	Proposed Cash Credit	Long Term	12.20	ACUITE BBB- / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE BBB- / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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