

Press Release

AVK Ispat Private Limited

January 06, 2020

Rating Reaffirmed



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

*Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.17.00 crore bank facilities of AVK Ispat Private Limited (AIPL). The outlook is revised from '**Stable**' to '**Positive**'.

The revision in outlook is on account of strategic changes undertaken in FY2018-19 in procurement leading to significant growth in operating income in the first half of FY2020 and expectation of further improvement in the near future.

The Mumbai-based AVK Group constitutes AIPL incorporated in 2010 and Alphonso Steel Private Limited (ASPL) incorporated in 2015. The group was set up by Mr. Daulatram Sewda in the year 1990. The companies are engaged in the trading of flat steel products. The group primarily trades in non-prime steel products. The group entity, 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 (AVKG). 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 and established track record of operation

AVK Group was established in 1990 by Mr. Daulatram Sewda and is currently managed by his sons Mr. Kamal Sewda and Mr. Vimal Sewda. The group has established track record of nearly three decades in the same line of business, steel trading. The promoters have vast experience of over four decades in this industry and are assisted by an experienced second line of management. The company has good relations with its existing customers and supplier. Further AVKG has also established relations with new suppliers in Japan and South Korea, giving them access to high quality product. Some of its suppliers include names like Metal Force Co. Limited, Tamaki Sangyo Co. Limited and APL Apollo Tubes Limited amongst others.

Acuité believes that the group will benefit from the vast experience of management which will help in maintaining good relations with its new and existing customer and suppliers.

• Moderate financial risk profile

The financial risk profile is moderate marked by tangible net worth of Rs.16.02 crore as on 31 March, 2019. The gearing stood moderate at 1.31 times on 31 March, 2019. The total debt of Rs. 21.00 crore as on 31 March, 2019 includes working capital borrowing of Rs.16.99 crore and unsecured loan of Rs. 4.01 crore. Interest Coverage Ratio (ICR) stood at 2.70 times for FY2019 against 5.47 times in FY2018. The decline in ICR was due to increase in interest expenses. The total outside liabilities to tangible net worth (TOL/TNW) stood moderate at 2.66 times in FY2019 and at 2.65 times in FY2018.

Going forward, Acuite expects the group to improve its financial risk profile in near to medium term on account of improved operating performance.

Weaknesses

• 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 70-80 per cent of total purchases are imported from Japan and Korea. As a result, the company is exposed to fluctuations in forex rates for the unhedged imports.

• Highly fragmented industry with intense competition

AVKG operates in a highly competitive industry thereby putting pressure on its pricing power. However, the introduction of GST has pushed many unorganized participants out of business, leading to easing of competitive pressures.

Liquidity Position: Adequate

AVK Group has adequate liquidity marked by current ratio of 1.48 times as on March 31, 2019 and March 31, 2018. Net cash accruals stood at 1.97 crore in FY2019. The operations are moderately working capital intensive marked by GCA days of 96 in FY2019 and 92 days in FY2018. However, moderate net worth has made the group dependent on borrowings for working capital management. The bank limit utilization remains high at ~95 per cent for six months ended October 2019. Acuite 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.

Rating Sensitivities

- A sustained improvement in the scale of operations while maintaining profitability will be a key monitorable.
- Any elongation of working capital cycle leading to increased dependence on banking borrowing will be a key rating sensitivity.

Material Covenants

None

Outlook: Positive

Acuite believes AVKG will maintain a positive business risk profile in the medium term on account of its experienced management and new strategic initiatives undertaken by the company. The rating may be upgraded in case AVKG registers higher-than-expected growth in revenue while maintaining profit margins. Conversely, the outlook may be revised to 'Stable' in case AVKG registers lower-than-expected growth in profitability and revenue or in case of elongation in the AVKG's working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	216.74	197.40
Profit after Tax (PAT)	Rs. Cr.	1.96	1.52
PAT Margin	(%)	0.90	0.77
Total Debt/Tangible Net Worth	Times	1.31	1.45
PBDIT/Interest	Times	2.70	5.47

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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. Crore.)	Ratings/Outlook
04-Mar-2019	Cash Credit	Long Term	17.00	ACUITE BBB-/Stable (Reaffirmed)
05-Dec-2017	Cash Credit	Long Term	17.00	ACUITE BBB-/Stable (Reaffirmed)
25-Oct-2017	Cash Credit	Long Term	2.8	ACUITE BBB-/Stable (Assigned)
	Proposed Cash Credit	Long Term	12.2	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-/ Positive (Reaffirmed and outlook revised from Stable)

Contacts

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About Acuité Ratings & Research:

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