

Press Release



AVK Ispat Private Limited

June 25, 2021

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 the long term rating of '**ACUITE BBB**' (read as ACUITE triple B) on the Rs. 17.00 Cr bank facilities of AVK Ispat Private Limited (AIPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation reflects moderate financial risk profile marked by moderate net worth, healthy gearing and debt protection metric. Also the rating factors in comfort derived by experienced management spanning over three decades, established track record of operations and adequate liquidity position. On the contrary, the rating is constrained by AVPL's restricted operational performance and intensive nature of working capital operations.

About the company

The Mumbai-based AVK Ispat Private Limited was established in 2010. The company is engaged in the trading of non-prime flat steel products such as sheets, hot rolled/cold rolled coils, galvanized coils & plates. The board of directors includes Mr. Vimal Sewda and Mr. Kamal Sewda.

Analytical Approach

Acuité has changed the rating approach of AIPL. Earlier, Acuité had considered the consolidated business and financial risk profile of AVPL and Alphonso Steel Private Limited together referred as AVK Group. The consolidation was in view of common management, same line of business and operational synergies. At present, Acuité has considered the standalone view of business and financial risk profiles of AVPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

AVK Ispat was established in 2010 by Mr. Daulatram Sewda and is currently managed by Mr. Kamal Sewda and Mr. Vimal Sewda. Mr. Kamal, takes care of the overall operations of the company and Mr. Vimal, heads the finance function. The company 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 company 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 of the company is moderate marked by moderate net worth, low gearing levels and above average debt protection metrics and coverage indicators.

The net worth of the company is moderate at Rs. 18.70 crore as on March 31, 2021 as against Rs. 17.16 crore as on March 31, 2020. The net worth levels have seen improvement from FY2019 to FY2021 on account of higher ploughing back of profits in form of retained earnings.

The company has followed a moderately aggressive financial policy in the past and is continuing with the same policy as reflected through its gearing of 0.97 times as on 31st March 2021 as against 1.14 as on 31st March 2020 and total outside liabilities to tangible net worth (TOL/TNW) levels of 1.43 times as on March 31,

2020.

The company has registered moderation in the debt coverage indicators as evident by fall in debt-service-coverage-ratio of 1.94 times as on 31st March, 2021 as against 2.13 times as on 31st March, 2020 and interest coverage ratio of 2.28 times as on 31st March, 2021 as against 2.56 times as on 31st March, 2020.

Acuité believes that the financial risk profile of the company will continue to remain healthy on account of healthy net worth and debt protection metrics.

Weaknesses

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

The company's profitability is vulnerable to fluctuations in iron and steel prices that could have an adverse impact on profitability. Approximately 35 per cent of total purchases are imported from Japan. The prices of the commodity fluctuate and are highly dependent on the demand and supply scenario in the global market. Hence, the margins of the AIPL are exposed to volatility in foreign exchange. Hence, it faces foreign exchange risk on account of currency fluctuations in the absence of any hedging mechanism.

- **Intensive working capital operations**

The Company has intensive working capital requirements as evident from gross current assets (GCA) of 129 days for FY2021 (Prov.) as against 119 days for FY2020. The GCA days are dominated by high receivables of 61 days as on 31 March 2021 as against 58 days in previous year. Also, the deterioration in the GCA days is on account of change in inventory days of 47 days as on 31 March 2020 as against 40 days in the previous year. Further the company held high unencumbered cash and bank balances of Rs. 7.74 crore in FY2021 as against 0.06 crore in previous year which has further increased the GCA days. Current Ratio stood at 1.56 times as on 31 March 2021 (Prov.).

Acuité believes that AIPL's working capital intensive operations will be mitigated by the availability of adequate liquidity over the medium term.

Rating Sensitivity

- Deterioration in profitability margins.
- Significant decline in scale of operations
- Substantial deterioration in working capital operations

Material Covenants

None

Liquidity position: Adequate

AIPL has adequate liquidity marked by healthy net cash accruals while there is no significant maturing debt obligation. Net cash accruals stood at Rs. 1.56 crore in FY2021 while the maturing debt obligations for the same period stood nil. The operations are working capital intensive marked by GCA days of 127 in FY2021 (Prov.) leading to moderately high bank limit utilization of 81.79% for nine months ended May 2021. The current ratio stood at 1.56 times as on March 31, 2021 (Prov.). Acuité believes that the liquidity of the company 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 Company will maintain 'Stable' outlook over the medium term on account of significant revenue growth while maintain profitability. The outlook may be upgraded in case of higher than expected growth in revenues or further improvement in profitability. The outlook may be revised to 'Negative' in lower than expected growth in revenues and profitability or increased working capital requirements deteriorating financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	119.66	219.92
PAT	Rs. Cr.	1.54	2.17
PAT Margin	(%)	1.28	0.99
Total Debt/Tangible Net Worth	Times	0.97	1.04

PBDIT/Interest	Times	2.28	2.56
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Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
29-Jan-2020	Cash Credit	Long term	17.00	ACUITE BBB/Stable (Upgraded)
06-Jan-2020	Cash Credit	Long term	17.00	ACUITE BBB-/Positive (Reaffirmed and outlook revised from stable)
04-Mar-2019	Cash Credit	Long term	17.00	ACUITE BBB-/Stable (Reaffirmed)

***Annexure – Details of instruments rated**

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

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About Acuité Ratings & Research:

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