

Press Release

Avon Tubetech Private Limited (ATPL)

June 13, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 12.50 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Assigned)
Short Term rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned long term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs.12.50 crore bank facilities of Avon Tubetech Private Limited (ATPL). The outlook is '**Stable**'.

Incorporated in 1997, Avon Tubetech Private Limited (ATPL) is a Delhi-based company engaged in manufacturing of specialised precision pipes (electric resistance welded, CDW, and cold-drawn seamless tubes) catering majorly to automobile industry. The company's manufacturing units are in Palwal Tatarpur (Rajasthan) where ERW tubes are manufactured with a capacity of 3500 to 4000 tonnes per month and Palwal Bhagola where CDW, CBQ & CDS tubes are manufactured with a capacity of 2500 to 3000 tonnes per month. ATPL is an authorised supplier for some of the reputed players in the industry namely Mahindra & Mahindra, Maruti Suzuki and Munjal Showa Limited among others.

Key Rating Drivers

Strengths

- Experienced management**

Incorporated in 1997, ATPL is led by Mr. Ashwani Mahajan (Managing Director) and Mr. Sunil Mahajan (Technical Director) who have been associated with the steel industry for more than two decades. The extensive experience of the directors has led to established market presence of ATPL enabling it to build strong business ties with its suppliers and customers.

- Growth in scale of operations**

ATPL has reported operating income of Rs.209.57 crore for FY2018 (Provisional) which has improved from Rs.148.42 crore in FY2017 and Rs.148.31 crore in FY2016. This is mainly due to increase in production capacity. The operating margins stood at 9.51 percent in FY2018 (Provisional) as against 9.74 percent in FY2017. Profit after Tax (PAT) margin stood at 5.64 percent in FY2018 (Provisional) as against 1.75 percent in FY2017. This is mainly because of the profit from sale of fixed asset of Rs.8.49 crore in FY2018.

Acuité believes that going forward the scale of operations of the company will increase due to increase in production capacity.

- Moderate financial risk profile**

ATPL has moderate financial risk profile marked by tangible net worth of Rs.51.56 crore as on 31 March, 2018 (Provisional) as against Rs.39.74 crore as on 31 March, 2017. This is mainly due to accretion of reserves. The gearing (debt-equity) improved to 0.99 times as on 31 March, 2018 (Provisional) as against 1.52 times as on 31 March, 2017. The total debt of Rs.50.97 crore as on 31 March, 2018 (Provisional) comprises term loans of Rs.20.52 crore, unsecured loans of Rs.4.24 crore from directors and working capital borrowings of Rs.26.21 crore. The Interest Coverage Ratio (ICR) improved to 3.09 times in FY2018 (Provisional) from 1.86 times in FY2017. Total outside Liability / Total Net Worth (TOL/TNW) stood at 2.92 times in FY2018 (Provisional) as against 3.17 times in FY2017.

Weaknesses

- **Intensive working capital operations**

ATPL's working capital operations are intensive in nature marked by Gross Current Assets (GCA) of 222 days in FY2018 (Provisional) as against 209 days in FY2017. Inventory holding period stood at 110 days in both FY2018 (Provisional) and FY2017. Collection period increased to 102 days in FY2018 (Provisional) as against 84 days in FY2017. Further, it had creditor days of 141 in FY2018 (Provisional) as against 146 days in FY2017. The company's liquidity profile is moderately stretched as its average working capital limit utilisation is ~80 percent in the last six months ended March 2018.

- **Competitive and fragmented industry**

The company operates in a highly competitive ERW tube industry thereby putting pressure on the bargaining power. The performance of the company is also impacted by large number of players in the ERW pipe segment.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of ATPL to arrive at the rating.

Outlook: Stable

Acuité believes that ATPL will maintain a 'Stable' outlook in the medium term while benefitting from its experienced management, growth in operations and moderate financial risk profile. The outlook may be revised to 'Positive' if ATPL shows significant improvement in working capital operations with sustained revenue growth while maintaining profitability. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenues and profitability or in-case of further deterioration in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	209.57	148.42	148.31
EBITDA	Rs. Cr.	19.93	14.46	15.86
PAT	Rs. Cr.	11.82	2.60	1.93
EBITDA Margin (%)	(%)	9.51	9.74	10.70
PAT Margin (%)	(%)	5.64	1.75	1.30
ROCE (%)	(%)	22.46	11.87	11.85
Total Debt/Tangible Net Worth	Times	0.99	1.52	1.51
PBDIT/Interest	Times	3.09	1.86	1.83
Total Debt/PBDIT	Times	1.78	3.65	3.36
Gross Current Assets (Days)	Days	222	209	186

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

None

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>
- Manufacturing entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

None

*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	10.00	ACUITE BB+/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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