

Press Release

Avon Tubetech Private Limited

March 19, 2021



Rating Upgraded

| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs.67.71 Cr. |
| Long Term Rating | ACUITE BB+/Outlook: Stable (Upgraded) |
| Short Term Rating | ACUITE A4+ (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BB+** (read as ACUITE double B plus) from '**ACUITE BB**' (read as ACUITE double B) and has reaffirmed the short term rating of '**ACUITE A4+** (read as ACUITE A four plus) on the Rs.67.71 crore bank facilities of Avon Tubetech Private Limited (ATPL). The outlook is '**Stable**'.

Reason for upgrade

The rating is upgraded on account of improvement in profitability margin and moderate financial risk profile of the company. The operating income of the company stood stable at Rs.237.26 crore in FY2020 as against Rs.281.56 crore in FY2019. The company is growing at a compounded annual growth rate of 17.16 percent since 2017. Also, the company's EBIDTA margin improved and stood at 8.29 percent in FY2020 as against 7.03 percent in FY2019. PAT margin stood at 1.33 percent in FY2020 as against 1.30 percent in FY2019. Also, the financial risk profile stood moderate with low gearing, healthy net worth and moderate debt protection matrices. Acuité believes going ahead the company is likely to sustain its growth over the medium term due to its established presence and experienced management.

About the Company

Incorporated in 1997, Avon Tubetech Private Limited (ATPL) is a Delhi based private limited company engaged in manufacturing of electric resistance welded, CDW, and cold-drawn seamless tubes majorly for automobile industry. Its manufacturing units are in Palwal Tatarpur and Palwal Bhagola where ERW, CDW, CBQ & CDS tubes are manufactured with an installed capacity of 42000 metric ton per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

• **Established track record of operations and experience management**

ATPL was established in 1988 and then reconstituted in 1997 as a private limited company. ATPL is promoted by its managing director, Mr. Ashwani Mahajan and technical director, Mr. Sunil Mahajan who has extensive experience in the industry. The company has an established customer base like Hero Motors, Hero Motocorp, Vibracoustic, ZF Auto, Bajaj Motors, Honda Motors and JCB among others.

Acuité believes that the company will continue to benefit with the promoter's experience and its established presence in the industry, improving its business risk profile over the medium term.

• **Moderate financial risk profile**

ATPL's financial risk profile is moderate marked by healthy net worth, low gearing (debt-equity) and moderate debt protection metrics. The tangible net worth of the company stood at Rs.57.17 crore as on March 31, 2020 as against Rs.54.01 crore as on March 31, 2019. The total debt of Rs.57.56 crore as on March 31, 2020 consist of Rs.13.44 crore of long term debt, Rs.3.93 crore of unsecured loans from directors and

Rs.40.19 crore of short term debt. The gearing (debt-equity) stood low at 1.01 times as on March 31, 2020 as compared to 1.01 times as on March 31, 2019. The Interest Coverage Ratio stood healthy at 1.86 times for FY2020 as against 1.92 times for FY2019. Total Outside Liabilities/Total Net Worth (TOL/TNW) moderated and stood at 2.44 times as on March 31, 2020 as against 2.60 times as on March 31, 2019. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.15 times for FY2020 as against 0.16 times for FY2019. Debt Service Coverage Ratio (DSCR) stood at 0.97 times in FY2020 as against 1.03 times in FY2019.

Acuité believes that the financial risk profile of ATPL will continue to remain moderate over the medium term.

Weaknesses

• Intensive working capital cycle

The company has an intensive working capital cycle marked by Gross Current Assets (GCA) days of 177 days in FY2020 and 151 days in FY2019. The receivable days stood at 81 days in FY2020 as against 73 days in FY2019. The inventory days stood at 91 days in FY2020 as against 74 days in FY2019. The average bank limit utilization remained low at 91 percent for the past trailing 6 months ended January 2021.

Acuité believes that efficient working capital management will be crucial to the company in order to maintain a healthy risk profile.

Rating Sensitivities

- Improving scale of operations while maintaining profitability.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity Position: Adequate

ATPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.8.40-15.70 crore during the last three years through 2018-20, while its maturing debt obligations were Rs.5.10-9.20 crore over the same period. The company's working capital operation is intensive marked by gross current asset (GCA) of 177 days in FY2020 as against 151 days in FY2019. The company maintains an unencumbered cash and bank balances of Rs.0.74 crore as on March 31, 2020. The current ratio of the group stood modest at 1.09 times as on March 31, 2020. The average bank limit utilization stood high at around 91 percent for the last 6 months ending January 2021.

Outlook: Stable

Acuité believes that ATPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and track record of operations. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or deterioration in its financial risk profile due to higher-than-expected debt funded capex plan.

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|-------------|----------------------|----------------------|
| Operating Income | Rs. Cr. | 237.26 | 281.52 |
| PAT | Rs. Cr. | 3.16 | 3.66 |
| PAT Margin (%) | (%) | 1.33 | 1.30 |
| Total Debt/Tangible Net Worth | Times | 1.01 | 1.01 |
| PBDIT/Interest | Times | 1.86 | 1.92 |

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Management Entities: <https://www.acuite.in/view-rating-criteria-59.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 (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|--|
| 25-Nov-2020 | Term Loan - 1 | Long Term | 0.49 | ACUITE BB/ Stable (Downgrade & Indicative) |
| | Term Loan - 2 | Long Term | 0.99 | ACUITE BB/ Stable (Downgrade & Indicative) |
| | Term Loan - 3 | Long Term | 4.34 | ACUITE BB/ Stable (Downgrade & Indicative) |
| | Term Loan - 4 | Long Term | 3.50 | ACUITE BB/ Stable (Downgrade & Indicative) |
| | Term Loan - 5 | Long Term | 0.37 | ACUITE BB/ Stable (Downgrade & Indicative) |
| | Term Loan - 6 | Long Term | 0.80 | ACUITE BB/ Stable (Downgrade & Indicative) |
| | Term Loan - 7 | Long Term | 0.39 | ACUITE BB/ Stable (Downgrade & Indicative) |
| | Term Loan - 8 | Long Term | 3.40 | ACUITE BB/ Stable (Downgrade & Indicative) |
| | Term Loan - 9 | Long Term | 2.13 | ACUITE BB/ Stable (Downgrade & Indicative) |
| | Term Loan - 10 | Long Term | 0.46 | ACUITE BB/ Stable (Downgrade & Indicative) |
| | Term Loan - 11 | Long Term | 1.34 | ACUITE BB/ Stable (Downgrade & Indicative) |
| | Term Loan - 12 | Long Term | 0.15 | ACUITE BB/ Stable (Downgrade & Indicative) |
| | Cash Credit - 1 | Long Term | 8.00*** | ACUITE BB/ Stable (Downgrade & Indicative) |
| | Cash Credit - 2 | Long Term | 12.50* | ACUITE BB/ Stable (Downgrade & Indicative) |
| | Letter of Credit - 1 | Short Term | 1.50 | ACUITE A4+ (Indicative) |
| | Letter of Credit - 2 | Short Term | 0.35 | ACUITE A4+ (Indicative) |
| | Letter of Credit - 3 | Short Term | 0.50 | ACUITE A4+ (Indicative) |
| | Bank Guarantee | Short Term | 21.50** | ACUITE A4+ (Indicative) |
| | Bill Discounting (LC) | Short Term | 1.88 | ACUITE A4+ (Indicative) |
| | Proposed bank facility | Long Term | 2.00 | ACUITE BB/ Stable (Downgrade & Indicative) |
| | Proposed cash credit | Long Term | 1.12 | ACUITE BB/ Stable (Downgrade & Indicative) |

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|--------------|---------------------------------|------------|------------------|---------------------------------|
| 16-Sept-2019 | Term Loan - 1 | Long Term | 0.49 | ACUITE BB+/ Stable (Indicative) |
| | Term Loan - 2 | Long Term | 0.99 | ACUITE BB+/ Stable (Indicative) |
| | Term Loan – 3 | Long Term | 4.34 | ACUITE BB+/ Stable (Indicative) |
| | Term Loan – 4 | Long Term | 3.50 | ACUITE BB+/ Stable (Indicative) |
| | Term Loan – 5 | Long Term | 0.37 | ACUITE BB+/ Stable (Indicative) |
| | Term Loan – 6 | Long Term | 0.80 | ACUITE BB+/ Stable (Indicative) |
| | Term Loan – 7 | Long Term | 0.39 | ACUITE BB+/ Stable (Indicative) |
| | Term Loan – 8 | Long Term | 3.40 | ACUITE BB+/ Stable (Indicative) |
| | Term Loan – 9 | Long Term | 2.13 | ACUITE BB+/ Stable (Indicative) |
| | Term Loan – 10 | Long Term | 0.46 | ACUITE BB+/ Stable (Indicative) |
| | Term Loan – 11 | Long Term | 1.34 | ACUITE BB+/ Stable (Indicative) |
| | Term Loan – 12 | Long Term | 0.15 | ACUITE BB+/ Stable (Indicative) |
| | Cash Credit – 1 | Long Term | 8.00*** | ACUITE BB+/ Stable (Indicative) |
| | Cash Credit – 2 | Long Term | 12.50* | ACUITE BB+/ Stable (Indicative) |
| | Letter of Credit – 1 | Short Term | 1.50 | ACUITE A4+ (Indicative) |
| | Letter of Credit – 2 | Short Term | 0.35 | ACUITE A4+ (Indicative) |
| | Letter of Credit - 3 | Short Term | 0.50 | ACUITE A4+ (Indicative) |
| 16-July-2018 | Bank Guarantee | Short Term | 21.50** | ACUITE A4+ (Indicative) |
| | Bill Discounting (LC) | Short Term | 1.88 | ACUITE A4+ (Indicative) |
| | Proposed bank facility | Long Term | 2.00 | ACUITE BB+/ Stable (Indicative) |
| | Proposed cash credit | Long Term | 1.12 | ACUITE BB+/ Stable (Indicative) |
| | Term Loan - 1 | Long Term | 0.49 | ACUITE BB+/ Stable (Assigned) |
| | Term Loan - 2 | Long Term | 0.99 | ACUITE BB+/ Stable (Assigned) |
| | Term Loan – 3 | Long Term | 4.34 | ACUITE BB+/ Stable (Assigned) |
| | Term Loan – 4 | Long Term | 3.50 | ACUITE BB+/ Stable (Assigned) |
| | Term Loan – 5 | Long Term | 0.37 | ACUITE BB+/ Stable |

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|------|---------------------------------|------------|------------------|---------------------------------|
| | | | | (Assigned) |
| | Term Loan – 6 | Long Term | 0.80 | ACUITE BB+/ Stable (Assigned) |
| | Term Loan – 7 | Long Term | 0.39 | ACUITE BB+/ Stable (Assigned) |
| | Term Loan – 8 | Long Term | 3.40 | ACUITE BB+/ Stable (Assigned) |
| | Term Loan – 9 | Long Term | 2.13 | ACUITE BB+/ Stable (Assigned) |
| | Term Loan – 10 | Long Term | 0.46 | ACUITE BB+/ Stable (Assigned) |
| | Term Loan – 11 | Long Term | 1.34 | ACUITE BB+/ Stable (Assigned) |
| | Term Loan – 12 | Long Term | 0.15 | ACUITE BB+/ Stable (Assigned) |
| | Cash Credit – 1 | Long Term | 8.00*** | ACUITE BB+/ Stable (Reaffirmed) |
| | Cash Credit – 2 | Long Term | 12.50* | ACUITE BB+/ Stable (Reaffirmed) |
| | Letter of Credit – 1 | Short Term | 1.50 | ACUITE BB+/ Stable (Assigned) |
| | Letter of Credit – 2 | Short Term | 0.35 | ACUITE A4+ (Assigned) |
| | Letter of Credit - 3 | Short Term | 0.50 | ACUITE A4+ (Assigned) |
| | Bank Guarantee | Short Term | 21.50** | ACUITE A4+ (Reaffirmed) |
| | Bill Discounting (LC) | Short Term | 1.88 | ACUITE A4+ (Assigned) |
| | Proposed bank facility | Long Term | 2.00 | ACUITE A4+ (Assigned) |
| | Proposed cash credit | Long Term | 1.12 | ACUITE A4+ (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 | 14.00# | ACUITE BB+/Stable (Upgraded) |
| Term Loan | Not Available | Not Available | Not Available | 5.00## | ACUITE BB+/Stable (Upgraded) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 2.00* | ACUITE BB+/Stable (Upgraded) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 12.50^ | ACUITE BB+/Stable (Upgraded) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 10.00** | ACUITE A4+ (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 2.21### | ACUITE A4+ (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 21.50^^ | ACUITE A4+ (Reaffirmed) |

| | | | | | |
|----------------|----------------|----------------|----------------|------|-------------------------|
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 0.50 | ACUITE A4+ (Reaffirmed) |
|----------------|----------------|----------------|----------------|------|-------------------------|

*Sublimit to CC: Rs.2.00 of Short term loan facility, Export invoicing financing facility, Import invoicing financing facility.

**Sublimit to LC: Rs.10.00 of Import invoicing financing facility and Rs.5.00 crore of Export invoicing financing facility

#Sublimit to CC: Rs.14.00 crore of Working capital demand loan

##Sublimit to Term loan: Rs.5.00 crore of Term loan FCNR (B)

###Sublimit to LC: Rs.5.00 crore of Counter Bank Guarantee

^Sublimit to CC: Rs.12.50 crore of Working capital demand loan and Rs.7.00 crore of Working capital demand loan

^^Sublimit to LC: Rs.22.50 crore of LC discounting, Rs.10.00 crore of Purchase invoice discounting, Rs.21.50 crore of Buyers Credit/FBG

Contacts

| Analytical | Rating Desk |
|--|--|
| Aditya Gupta Vice President - Corporate and Infrastructure Sector Tel: 022 49294041 aditya.gupta@acuite.in Vishal Kotian Analyst – Rating Operations Tel: 022 49294064 vishal.kotian@acuite.in | Varsha Bist Senior Manager - Rating Desk Tel: 022 49294011 rating.desk@acuite.in |

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.