

Press Release
Avdesh Steel Works Private Limited
 June 26, 2018
Rating Assigned



Total Bank Facilities Rated*	Rs. 16.72 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.16.72 crore bank facilities of Avdesh Steel Works Private Limited (ASWPL). The outlook is '**Stable**'.

Avdesh Steel Works Private Limited (ASWPL), is a Mumbai based company incorporated in the year 2013 by Mr.Piyush and Mr. Gorav Jain. It is engaged in the manufacture of stainless steel ingots and flats which are used in various industries such as manufacture of household utensils, S.S. pipes, and household furniture among others. The manufacturing facility is located at Gujarat with an installed capacity of 16000 tonnes per annum (tpa). The company procures raw materials such as nickel scrap from Maharashtra, Gujarat, Bangalore and China. ASWPL is a full owned subsidiary of Ashutosh Metals Private Limited (AMPL).

The Mumbai-based AMPL is incorporated in 1999 by Mr. Chandrakanth. It is engaged in the production of stainless steel ingots and flats used in the manufacture of household utensils, S.S. pipes, furniture at Ahmedabad, Gujarat. The installed capacity is 700 tonnes per Month.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of ASWPL and AMPL (referred to as Ashutosh group) to arrive at this rating. The consolidation is on account of holding and subsidiary relationship, intercompany transactions, and common management.

Key Rating Drivers

Strengths

• Experienced management and long track record of operations

The group was started in the year 1999 by Mr. Chandrakanth Jain, (Founder) who possesses more than three decades of experience in the stainless steel industry. The managing directors Mr. Piyush Jain and Mr. Gorva Jain look after the procurement, production and marketing of the group. The experience of the management in the industry has helped the group to maintain long standing relations with both customers as well as suppliers. Further, the marketing abilities of the directors helped the group to expand to new geographies which led to revenue growth in the FY2018 and expecting revenues of around Rs.300 crore in the medium term.

Revenues of the group grew by 38.72 percent YoY from Rs.132.61 crore in FY2017 (refers to financial year, April 1st to March 31st) to Rs.183.94 crore (Provisional) in FY2018. The growth is driven by both industry related growth, and new client addition and geographic diversification. The company started selling its products in Maharashtra, Delhi and Rajasthan. During March to June 2018, the company did a capital expenditure in ASWPL and enhanced its manufacturing capacity from 8000 tpa to 16000 tpa. With the increase in the customer base coupled with capacity addition, the group is expecting more than Rs.300 crore revenues for the FY2019. For the two months ended FY2019, the group reported revenues of Rs.38 crore. Further, the group has executable orders worth Rs.65 crore to be supplied in the next two months' time. Acuite believes that group's long operational track

record, higher manufacturing capacities and diversified geographies are expected to benefit the group in improving its business risk profile over the medium term.

- **Moderate financial risk profile**

Financial risk profile of the group is comfortable marked by comfortable gearing (Debt to Equity ratio), debt protection metrics though underpinned by high total outside liabilities to total net worth (TOL/TNW). Gearing is comfortable at 1.12 times as on 31 March, 2018 (provisional) as against 0.89 times as on 31 March, 2017. Net worth is at Rs.18.34 crore (provisional) as on 31 March, 2018. Debt service protection metrics of interest coverage ratio (ICR) is healthy at 3.33 times and debt service coverage ratio (DSCR) is moderate at 1.71 times (provisional) in FY2018. TOL/TNW is high, being manufacturing operations at 2.75 times as on 31 March, 2018 (provisional). The group did a capital expenditure of around Rs.5.12 crore funded through bank funds of Rs.4.00 crore and promoter funds of Rs.1.12 crore for capacity expansion. With annual expected cash accrals of about Rs.4-5 crores and repayment obligations of about Rs.1 core in the medium term, Acuite believes that the financial risk profile continues to be comfortable over the medium term.

- **Comfortable Working capital Cycle**

Working capital cycle of the group is comfortable evident from gross current assets (GCA) days of about 100-105 for the last three years through FY2018. Regular flow of orders coupled with raw material availability helped the group in minimising its inventory levels to about 30-40 days of cost of sales; the group gives a credit of about two months to its customers. On back to back basis, the group receives credit of about 50-60 days from its suppliers which minimises the investment in working capital; as a result, the group has been efficiently managing its working capital at about 80 per cent utilisation over the past four months through May 30, 2018. Acuite believes that the group's working capital operations are expected to be at similar levels over the medium term supported by healthy raw material sourcing, and supplier support on the back of healthy credit terms with customers.

Weaknesses

- **Raw material price fluctuation risk**

The main raw material for manufacturing stainless steel ingots and flats is nickel, whose prices tend to fluctuate day to day, being commodity nature. Hence revenues and profitability margins are susceptible to fluctuations in the prices of raw material; the profitability margins at operating level was so volatile ~ it was at 3.67 per cent in FY2016 increased to 4.11 per cent in FY2017 and dropped to 2.75 per cent (provisional). The raw material cost constitutes around 80 per cent of the total sale. Thus, any adverse price movements in nickel prices and availability can materially impact the revenues and profitability.

- **Competitive and fragmented industry**

The group is exposed to intense competition from organised and unorganised players in the fragmented steel industry. Further, the profit margins and sales of the group remains exposed to inherent cyclical in the steel industry.

Outlook: Stable

Acuité believes that Ashutosh group will continue to maintain a stable outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the group achieves higher than expected revenues and profitability while maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of any significant decline in its profitability or any deterioration of its working capital management leading to stretch in its liquidity.

About the Rated Entity - Key Financials

	Unit	FY2018 (Prov)	FY17 (Actual)	FY16 (Actual)
Gating Income	Rs. Cr.	183.94	132.61	138.65
EBITDA	Rs. Cr.	5.05	5.45	5.09
PAT	Rs. Cr.	1.45	1.23	1.20
EBITDA Margin	(%)	2.75	4.11	3.67

PAT Margin	(%)	0.79	0.93	0.87
ROCE	(%)	9.90	11.00	9.79
Total Debt/Tangible Net Worth	Times	1.12	0.89	1.35
PBDIT/Interest	Times	3.33	2.73	3.03
Total Debt/PBDIT	Times	4.01	2.71	4.18
Gross Current Assets (Days)	Days	103	106	105

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>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>
- Consolidation of companies- <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***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	8.00	ACUITE BBB- / Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.72	ACUITE BBB- / Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB- / Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:

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