



Press Release

Avdesh Steel Works Private Limited

March 29, 2019

Rating Downgraded

Total Bank Facilities Rated*	Rs. 16.72 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Downgraded from ACUITE BBB- /Stable)
Short Term Rating	ACUITE A4+ (Downgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A3**' (read as **ACUITE A three**) to the Rs.16.72 crore bank facilities of AVDESH STEEL WORKS PRIVATE LIMITED (ASPL). The outlook is '**Stable**'.

Rating downgrade reflects sharp decline in profitability margins. Operating margin has declined sharply to 2.92 percent in FY2018 from 4.01 percent in FY2017. It is further expected to decline around 2.50 per cent in FY2019. Profit after Tax (PAT) margin has declined to 0.76 per cent in FY2018 from 0.91 per cent in FY2017. However, the rating is supported by experienced management and comfortable working capital operations of the company.

The Mumbai-based ASPL, a 100 percent subsidiary of Ashutosh Metal Private Limited (AMPL) was incorporated in 2013. The company is engaged in the manufacture of stainless steel ingots and flats.

Analytical Approach

For analytical purposes, Acuité has considered the consolidated business and financial risk profile of AMPL and ASWPL, together referred to as 'Ashutosh Group'. Acuité has adopted a consolidated approach on account of the financial linkages, common management and holding and holding-subsidiary relationship. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Long track record and experienced management**

Ashutosh Group led by Mr. Chandrakant (Director) commenced operations in 1999. Mr. Chandrakant has more than three decades of experience in the stainless steel industry. Acuité believes that the group will benefit from its experienced management and long track record of operations.

- **Moderate working capital cycle**

Group has moderate working capital operations marked by high Gross Current Assets (GCA) of 103 days in FY2018 as against 104 days in FY2017. The inventory and debtor levels stood at 42 and 53 days in FY2018 as against 38 and 47 days in FY2017, respectively. Further, the average utilisation of bank limits stood at ~58 per cent in the last six months ending February 2019. Acuité believes that the working capital requirements will continue to remain moderate over the medium term on account of the level of inventory to be maintained by the company.

Weaknesses

- **Moderate scale of operations and sharp decline in profitability**

The group reported moderate revenue growth marked by operating income of Rs.182.64 crore in FY2018 as against operating income of Rs.135.77 crore in FY2017. However, the operating margins declined sharply to 2.92 percent in FY2018 from 4.01 percent in FY2017. It is further expected to decline

to around 2.50 per cent in FY2019 (Provisional). Further, profit after tax (PAT) margin also declined to 0.76 per cent in FY2018 as against 0.91 percent in FY2017.

• **Risk of fluctuations in raw material prices**

The revenues and profitability margins are susceptible to fluctuations in the prices of nickel - the raw material used for manufacturing stainless steel ingots and flats. The raw material cost constitutes around 80 per cent of the total sales. Thus, adverse price movements in steel and its availability can impact profitability.

• **Forex fluctuation risk**

Group imports around 20 percent of its raw materials from China and Vietnam, among others. Hence, the profit margins are exposed to foreign exchange fluctuation risk in the absence of hedging policy.

Liquidity Position:

Ashutosh Group has moderate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.3.03 to 3.12 crore during the last three years through 2016-18, while its maturing debt obligations were in the range of Rs.0.87 to 1.12 crore over the same period. The group's working capital operations are moderate marked by gross current asset (GCA) days of 103 in FY 2018. This has led to moderate reliance on working capital borrowings, the cash credit limit in the group remains utilised at 60 percent during the last 6 months period ended February 2019. The group maintains unencumbered cash and bank balances of Rs.0.10 crore as on March 31, 2018. The current ratio of the group stands at 1.42 times as on March 31, 2018. Acuite believes that the liquidity of the group is likely to remain moderate over the medium term on account of increase in repayments and decline in profitability.

Outlook: Stable

Acuite believes that Ashutosh group will 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 company registers significant improvement in revenue and profitability while maintaining a moderate financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues and profit margins, or deterioration of financial risk profile and liquidity.

About the Group

Ashutosh Group comprises of Ashutosh Metal Private Limited and Avdesh Steel Works Private Limited established in 1999 by Mr. Chandrakant. At present, it has presence in the steel industry.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	182.64	135.77	141.55
EBITDA	Rs. Cr.	5.33	5.45	5.09
PAT	Rs. Cr.	1.38	1.23	1.20
EBITDA Margin	(%)	2.92	4.01	3.60
PAT Margin	(%)	0.76	0.91	0.85
ROCE	(%)	10.28	11.00	17.34
Total Debt/Tangible Net Worth	Times	0.56	0.54	0.97
PBDIT/Interest	Times	3.26	2.73	3.03
Total Debt/PBDIT	Times	2.53	2.02	3.59
Gross Current Assets (Days)	Days	103	104	103

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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. Cr.)	Ratings/Outlook
26-Jun-2018	Cash Credit	Long Term	8.00	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	2.72	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	4.00	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A3 (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	8.00	ACUITE BB+ / Stable (Downgraded from BBB-/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.72	ACUITE BB+ / Stable (Downgraded from BBB-/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB+ / Stable (Downgraded from BBB-/Stable)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Downgraded from A3)

Contacts

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About Acuité Ratings & Research:

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