



Press Release

Avon Containers Private Limited

October 17, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 31.50 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 31.50 crore bank facilities of AVON CONTAINERS PRIVATE LIMITED (ACPL). The outlook is '**Stable**'.

ACPL is a Haryana based company incorporated in 1991 by Mr. Umesh Aggarwal and Mr. Gaurav Aggarwal. The company is primarily engaged in manufacturing of corrugated boxes mainly catering to the automobile, electronic goods company and also solar panels manufacturing companies. The company procures its main raw material i.e. kraft paper from New Zealand and domestic suppliers located in Gujarat and Uttar Pradesh. The company has four manufacturing units located in Haryana with combined installed capacity of 7,000 Metric tonnes per annum.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of ACPL for arriving at the rating.

Key Rating Drivers

Strengths

• Established position and experienced management

ACPL is operating in the paper packaging industry for more than two decades and also benefits from the extensive experience of its promoters who collectively possess more than three decades of experience in the paper packaging industry. The established position has helped the company to maintain long standing relations with marquee clients including Maruti Suzuki India Limited, Micromax Informatics Limited, Intex Technologies India Limited, Amazon, Mundra Solar PV Limited (Adani), Baxter India Private Limited, Samsung India Electronic Private Limited, LG Electronics India Private Limited, Hero Motorcorp Limited among others.

Going forward, Acuité expects the company to maintain its business risk profile on account of its experienced promoters and established relations with reputed clientele.

- **Comfortable financial risk profile**

The financial risk profile of the company is comfortable marked by modest adjusted networth at Rs.15.15 crore as on 31 March, 2018 (Provisional) as against Rs.15.14 crore in the previous year. For arriving at the adjusted tangible networth, the interest bearing unsecured loan from related parties of Rs.7.76 crore has been considered as part of networth as same is subordinated to bank debt. The adjusted gearing stood at 2.26 times as on March 31, 2018 (Provisional) as against 1.72 times in the previous year.

The total debt of Rs.34.24 crore as on March 31, 2018 (Provisional) comprising of short term debt of Rs.9.71 crore, long term borrowing of Rs.16.38 crore and unsecured loan from related parties of Rs.8.15 crore. The interest coverage ratio (ICR) stood at 3.02 times and debt service coverage ratio (DSCR) at 1.88 times for FY2018 (Provisional) as against 2.56 times and 1.62 times in the previous year. The total outside liabilities to tangible net worth (TOL/TNW) stood at 4.81 percent as on 31 March, 2018 (Provisional) as against 2.88 percent in the previous year.

Going forward, Acuité expects the financial risk profile of the company to improve on account of the improvement in networth and repayment of long term borrowings.

Weaknesses

• Modest scale of operations

ACPL operates at modest scale of operations with operating income of Rs.107.16 crore in FY2018 (Provisional) as against Rs.87.39 crore in the previous year, inspite of being in operating for the last twenty six years. The company has reported modest compound annual general growth (CAGR) rate of around 10 percent during the last four years. The modest scale of operation is on account of limited installed capacity. However, the company has undertaken major capacity expansion during FY2017-18 and same is expected to drive the revenue growth going forward. Further, as informed by management, the company has reported net sales of Rs.60.00 crore during April, 2018 to September, 2018. The company has been able to acquire new customers including Vikram Solar Limited and Mundra Solar PV Limited (Adani) leading to growth in the revenue during the last two years.

• Working capital intensive nature of operations

The operating cycle of the company is elongated with high Gross Current Assets (GCA) of 171 days in FY2018 (Provisional) as against 118 days in the previous year. This is due to the stretched debtor days of around 89 days in FY2018 (Provisional) as against 64 days in the previous year. The stretched debtors are due to major sales in the last quarter as well as delays in realisation of receivable. Further, the stretched GCA days are also on account of high amount of other current assets which mainly includes GST tax credit to the tune of Rs.13.32 crore. Further, the liquidity position of the company is marginally comfortable as the average working capital limit utilisation stood at around 75 percent for the last six months ended as on 31 July, 2018.

• Thin profitability and same is susceptibility to volatility in commodity prices and foreign exchange rate

The operating margin stood at 8.41 percent in FY2018 (Provisional) as against 6.73 percent in the previous year. The raw material cost constitutes around 76 percent of the total sales in FY2018 (Provisional) as against around 81 percent in the previous year. Any changes in the raw material i.e. kraft paper prices is likely to impact the profitability margins of the company. The profit after tax (PAT) is thin at 0.01 percent in FY2018 (Provisional) as against 0.67 percent in the previous year. The decline is mainly on account of high amount of depreciation and interest outgo during FY2018 (Provisional) resulting from debt funded capex plan undertaken by the company during FY2017-18. The profitability is also susceptible to fluctuation in foreign exchange rate as the company imports from overseas supplier in New Zealand in the absence of adequate hedging mechanism.

Outlook: Stable

Acuite believes that ACPL will maintain a 'Stable' outlook over the medium term owing to its established presence and extensive experience of management in the paper packaging industry. The outlook may be revised to 'Positive' in case the company registers significant growth in revenue while achieving improvement in profitability and effectively managing its operating cycle. Conversely, the outlook may be revised to 'Negative' in case of steep decline in profitability or deterioration in the capital structure and liquidity position on account of majorly debt funded capex plan.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	107.16	87.39	75.79
EBITDA	Rs. Cr.	9.01	5.88	4.71
PAT	Rs. Cr.	0.02	0.58	1.17
EBITDA Margin	(%)	8.41	6.73	6.21
PAT Margin	(%)	0.01	0.67	1.55
ROCE	(%)	9.25	10.80	13.46
Total Debt/Tangible Corpus Fund	Times	2.26	1.72	0.72
PBDIT/Interest	Times	3.02	2.56	3.62
Total Debt/PBDIT	Times	3.72	4.33	2.18
Gross Current Assets (Days)	Days	171	118	112

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BB/ Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.17	ACUITE BB/ Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.94	ACUITE BB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	8.35	ACUITE BB/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.04	ACUITE BB/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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