Press Release

Avanta Engineering Private Limited

June 25, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	ACUITE BB-/ Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of **'ACUITE BB-' (read as ACUITE double B minus)** to the Rs.15.00 crore bank facilities of Avanta Engineering Private Limited (AEPL). The outlook is 'Stable'.

Incorporated in 2015 and promoted by Mr. Arvind Jain and Mrs. Prabha Devi Jain, AEPL commenced its operations in April, 2018. AEPL manufactures galvanized steel wires with an installed capacity of 26200 MTPA. The same finds application in infrastructure, defense and agricultural sector. AEPL supplies primarily to manufacturer of barbed wires, mesh and other associated products.

Analytical Approach:

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

Key Rating Drivers

Strengths

- **Experienced management and location advantage**
  Mr. Arvind Jain, the key promoter has over a decade of experience in the steel industry by virtue of his association with Reckon Steel and Power Private Limited. Further, the company is situated in Engineering Park, Bhilai which has about 150 units based on engineering products, machine tools, auto components, casting and forging providing easy access to suppliers of raw material and customers.

- **Prudent working capital nature of operations**
  AEPL's working capital operations are prudent marked by Gross Current Asset (GCA) of 36 days in its first year of its operations. The same is on account of inventory of 17 days and credit extended to customers of 12 days in FY2019. Going forward, the company's ability to manage its working capital operation and ramping up its operations will remain a key monitorable.

Weaknesses

- **Limited track record of operations**
  AEPL commenced its operations in FY 2018-19 and registered operating revenue of Rs 60.58 Crore at 50 percent utilization of its installed capacity. Going forward, AEPL' ability to stabilise its operations and ramp-up its revenue and improve its profitability will remain a key monitorable.

- **Moderate financial risk profile**
  AEPL's financial risk profile is moderate marked by low net worth, comfortable gearing and modest debt protection metrics. The net worth increased to Rs.5.09 crore as on 31 March, 2019 as against Rs.2.75 crore as on 31 March, 2018 supported by infusion of unsecured loans by the promoter. Acuité has considered Rs. 2.11 Crore of unsecured loans as quasi equity as the management has undertaken to maintain the same in the business over the medium term. The gearing improved to 1.20 times as on 31 March, 2019 compared to 2.13 times as on 31 March, 2018 on account of infusion of unsecured loans. The debt service coverage ratio (DSCR) remained modest at 1.16 times as on March 31, 2019.

- **Competitive and fragmented industry**
  The company faces stiff competition from other small and unorganised players in the industry, which limits its bargaining power with customers and suppliers, and hence, exerts pressure on its margins.

Liquidity Profile:
AEPL has moderate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.86 crore during FY2019, while it's maturing debt obligations stood at Rs.0.60 crore over the same period. The cash accruals of the company are estimated to remain comfortable to meets its repayment obligations during 2019-21. The cash credit limit in the company remains utilised at around 90 percent during the last 6-month period ended May, 2019. The company maintains unencumbered cash and bank balances of Rs.0.04 crore as on March 31, 2019. The current ratio of the company stands low at 1.05 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual sufficient to meet its repayments over the medium term.

Outlook: Stable
Acuité believes that AEPL will maintain a 'Stable' outlook over the medium term owing to its promoters' extensive experience in the industry. The outlook may be revised to 'Positive' in case the company achieves more than envisaged sales and profitability while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and profitability or the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	60.58	0.00	0.00
EBITDA	Rs. Cr.	1.88	0.00	0.00
PAT	Rs. Cr.	0.23	0.00	0.00
EBITDA Margin	(%)	3.11	-	-
PAT Margin	(%)	0.38	-	-
ROCE	(%)	12.96	-	-
Total Debt/Tangible Net Worth	Times	1.20	2.13	0.00
PBDIT/Interest	Times	1.96	-	-
Total Debt/PBDIT	Times	3.20	-	-
Gross Current Assets (Days)	Days	36	-	-

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)
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	3.50	ACUITE BB- / Stable

Term Loan	Not Applicable	Not Applicable	Not Applicable	2.78	ACUITE BB- / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BB- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	4.22	ACUITE BB- / Stable

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About Acuité Ratings & Research:
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