

Press Release

Avanta Engineering Private Limited

July 31, 2020



Rating Upgraded and Assigned

Total Bank Facilities Rated	Rs. 19.46 crore (Enhanced from Rs 15.00 crore)
Long Term Rating	ACUITE BB/ Stable (Upgraded from ACUITE BB-/ Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs 19.46 crore bank facilities of Avanta Engineering Private Limited (AEPL). The outlook is '**Stable**'.

The rating upgrade is driven by the overall improvement in the business risk profile of the company as reflected from the increase in the turnover levels as well as net cash accruals. The top line of the company has increased from Rs. 60.58 crore in FY2019 to Rs. 76.78 crore in FY2020 (Provisional) thereby achieving a y-o-y growth of around 27 percent. Similarly, cash accruals have improved to Rs. 1.17 crore in FY2020 (Provisional) from Rs. 0.86 crore in the previous year. The revenue increase has been mainly due to the improvement in their capacity utilisation levels. Acuité continues to draw comfort from its experienced management and prudent working capital operations. The above-mentioned strengths are partially offset by their moderate financial risk profile and the fragmented nature of the industry.

Incorporated in 2015, Avanta Engineering Private Limited (AEPL) is a Bhilai, Chhattisgarh based company, engaged in manufacturing of galvanised steel wires with an installed capacity of 26200 MTPA. The same finds application in infrastructure, defence and agricultural sector. The company procures raw materials locally from Bhilai and Durg and the finished wire is sold pan India. Currently, the company is managed by Mr. Arvind Jain and his father Mr. Kantilal Jain.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

Established in 2015, the company has been engaged in manufacturing of galvanised steel wires. The key promoter, Mr. Arvind Jain, has over a decade of experience in the steel industry by virtue of his association with its group company, Reckon Steel and Power Private Limited. The experience of the promoters in the industry has helped the firm to establish healthy relations with customers. 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. Acuité believes that AEPL shall continue to benefit from the extensive industry experience of its promoters in improving its business risk profile over the medium term.

- **Efficient working capital cycle**

The working capital operations of the company stood well managed marked by GCA (Gross Current Assets) Days of 41 days in FY 2020 (Provisional) as compared to 36 days in the previous year in FY 2019. The inventory days stood well managed at 17 days in the past two years ended FY 2020 (Provisional). The debtor days also stood well managed at 17 days in FY 2020 (Provisional) as compared to 12 days in FY 2019. The working capital limits remained utilised at an average of around 72 percent for 11 months ended June, 2020. The working capital operations are expected to remain at similar levels over the medium term due to their payment terms with its customers and prudent inventory policy.

Weaknesses

• Moderate financial risk profile

The financial risk profile of the company is marked by low networth, modest gearing level and healthy debt protection metrics. The tangible networth stood at Rs 5.48 crore as on 31st March, 2020 (Provisional) as compared to Rs 5.09 crore in the previous year. Acuité has considered the unsecured loan of Rs 2.11 crore in FY 2020 (Provisional) as networth which has been subordinated to the bank and the same has been treated as quasi-equity. The gearing (debt-equity) stood at 1.51 times as on 31st March, 2020 (Provisional) as compared to 1.20 times in the previous year. The total debt of Rs 8.28 crore as on 31st March, 2020 (Provisional) consist of working capital borrowings of Rs 5.25 crore, term loan of Rs 2.62 crore and an unsecured loan from directors of Rs 0.40 crore. The coverage indicators are marked by Interest coverage ratio (ICR) which stood at 2.18 times for FY 2020 (Provisional) as compared to 1.96 times in FY 2019 and DSCR (Debt Service Coverage Ratio) stood at 1.27 times as against 1.16 times in the previous year. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.14 times in FY 2020 (Provisional) and 0.14 times in FY2019. Debt to EBITDA stood at 3.82 times in FY 2020 (Provisional) as against 3.2 times in FY2019. The financial risk profile is expected to deteriorate over the medium term on account of debt-funded capex plan for backward integration.

• Project execution risk

The company is planning a debt-funded capital expenditure of Rs. 9.87 crore for installation of wire drawing machinery. The same is expected to be funded through a term loan of Rs.8.00 crore and remaining through internal accruals/Partner's contribution. The project is expected to be completed by January, 2021 and the commercial operations are expected to start by April, 2021. Any delay in execution or any cost overrun of the project will impact the liquidity of the company.

Rating Sensitivity

- Substantial growth in revenue coupled with improving profitability
- Improvement in debt protection metrics

Material Covenants

None

Liquidity Profile: Adequate

AEPL has adequate liquidity marked by moderate cash accruals to its maturing debt obligations. The company generated cash accruals of Rs 0.86-1.17 crore in FY 2019-2020 (Provisional) while its maturing debt obligations were around Rs 0.72 crore every year during the same period. The cash accruals of the company are estimated to remain in the range of around Rs. 1.55-3.37 crore during 2021-23 against estimated repayment obligation of around Rs. 1.11-3.14 crore during FY 2021- 2023. The working capital operations of the company are well managed marked by GCA (Gross Current Assets) Days of 41 days in FY 2020 (Provisional) as compared to 36 days in the previous year. The company maintains unencumbered cash and bank balances of Rs. 0.19 crore as on March 31, 2020 (Provisional). The current ratio stood at 1.12 times as on March 31, 2020 (Provisional). The working capital limits remained utilised at an average of around 72 percent for 11 months ended June, 2020. Acuité believes that the liquidity of the company is likely to improve over the medium term on account of expected healthy cash accruals to its maturing debt obligation.

Outlook: Stable

Acuité believes that AEPL's outlook will remain 'Stable' over the medium term from its experienced management, locational advantage and comfortable working capital cycle. The outlook may be revised to 'Positive' in case of growth in revenues and profitability, improving its financial risk profile. The outlook may be revised to 'Negative' in case of a steep decline in revenues and profitability or increasing working capital intensity and deteriorating financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	76.78	60.58
PAT	Rs. Cr.	0.39	0.23
PAT Margin	(%)	0.51	0.38
Total Debt/Tangible Net Worth	Times	1.51	1.20
PBDIT/Interest	Times	2.18	1.96

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities -- <https://www.acuite.in/view-rating-criteria-59.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. Crore)	Ratings/Outlook
25-June-2019	Cash Credit	Long Term	3.50	ACUITE BB-/Stable (Assigned)
	Term Loan	Long Term	2.78	ACUITE BB-/Stable (Assigned)
	Proposed Cash Credit	Long Term	4.50	ACUITE BB-/Stable (Assigned)
	Proposed	Long Term	4.22	ACUITE BB-/Stable (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	9 th August, 2019	Not Applicable	Not Applicable	6.86 (Enhanced from Rs 3.50 crore)	ACUITE BB/ Stable (Upgraded from ACUITE BB-/ Stable)
Term Loan	5 th April, 2017	Not Applicable	Not Applicable	2.40 (Reduced from Rs 2.78 crore)	ACUITE BB/ Stable (Upgraded from ACUITE BB-/ Stable)
UCELC	28 th May, 2020	Not Applicable	Not Applicable	0.69	ACUITE BB/Stable (Assigned)
WCTL	19 th June, 2020	Not Applicable	Not Applicable	1.51	ACUITE BB/Stable (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	8.00 (Enhanced from Rs 4.22 crore)	ACUITE BB/ Stable (Upgraded from ACUITE BB-/ Stable)

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About Acuité Ratings & Research:

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