

Press Release

Avalon Technologies Private Limited

September 29, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 128.50 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs. 128.50 crore bank facilities of Avalon Technologies Private Limited (ATPL). The outlook is '**Stable**'.

About the company

Avalon Technologies Private Limited (ATPL) was established in 1998 at MEPZ, Chennai. The company is in the Electronic Contract Manufacturing business, focusing on US and Indian markets. ATPL manufactures, tests and delivers the electronic products and the associated box build (metal, cables and plastics) to the Equipment Manufacturers (End to End). The Company has integrated capabilities in PCB Assembly, Cable Harness, Sheet metal fabrication and machining, Transformers etc. ATPL focuses on the low volume, high mix components which forms part of the mission-critical products focusing on B2B customers. ATPL work with the world's leading companies across several large end-use industries such as power, Industrials, Railway, Medical, Communication, Automotive and aerospace.

About the group

The Avalon group is in the business of Electronic Contract Manufacturing Services (EMS) and the group has strategically chosen to focus on a vertically integrated its product proposition in EMS space & holds a unique position in EMS landscape in India / USA. The Avalon group was founded in 1995 in Fremont, California and subsequently commissioned the manufacturing operations in MEPZ, Chennai India in 1998. The group has 4 companies under its umbrella, viz., Sienna Corporation Inc., in USA, Avalon Technologies Pvt Ltd. (ATPL) Chennai, Avalon Technology & Services Pvt Ltd. (ATS) Chennai & Bangalore, and Sienna ECAD Pvt Ltd. Bangalore, India.

The group has design and large manufacturing facilities in USA (Atlanta, Georgia), as well as in India (Chennai and Bangalore) and focuses on high-mix, highly complex, mission-critical, integrated solutions with high engineering content. The group offers integrated box build and assemblies encompassing the design & manufacturing of (1) Printed Circuit Board (PCB), (2) Cables, (3) Harness Cables, (4) Magnetics, (5) Metals and (6) Plastics.

Analytical Approach

Acuite has considered the consolidated business and financial risk profiles of Avalon Technologies Private Limited (ATPL), Avalon Technology and Services Private Limited (ATS), Sienna ECAD Technologies Private Limited and Sienna Corporation Inc., USA together referred as Avalon Group. The consolidation is mainly on account of the business synergies, strong operational synergies, and common management. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Avalon Group was established in 1995 by Mr. Kunhamed Bicha and Mr. Bhaskar Srinivasan in the US and started in India in 1998. The day to day operations is managed by its senior management team led by Mr. Kunhamed Bicha, and Mr. Bhaskar Srinivasan, who has an experience of over three decades in the diversified manufacturing industry. The group has developed long-term relationship with customers and suppliers over the years, which help in getting repeated orders.

Acuite believes that the company will be benefitted over the medium term on the back of established presence in the industry for more than two decades.

- **Healthy scale of operations**

The revenues of the group have grown consistently and stood at Rs. 692.22 crore in FY2019 as against Rs. 506.60 crore in FY2018. However, the group reported a decline in revenues by ~7.90 percent to Rs.637.50 crore (Provisional) in FY2020. This is majorly because of the COVID-19 situation, which affected the group during the last quarter of FY2020. The operating profitability stood at 9.93 percent (Provisional) in FY2020 as against 10.03 per cent in FY2019. Further, the net profit increased to 3.05 percent (Provisional) in FY2020 from 2.83 in FY2019.

Acuite believes that the scale of operations will improve in the medium term on account of a healthy order book of Rs.333.59 crore spread across multiple industries for ATPL. Though the business of the entire group has been impacted due to COVID, it has led to an increase in orders for medical products like Ventilators in India and other healthcare products in the US.

Post COVID, there is likely to be a paradigm shift in terms of movement of contract manufacturing away from China to other low-cost destinations (like India) or localization (in USA) which has the potential to transform the Avalon Group EMS business.

- **Diversified and strong customer base**

Group has a diversified and strong customer base. Its reputed clientele includes BOSCH, Honeywell, Infosys, Intel and Kyosan, to name a few. It has its customer base from various industries like power, Industrials, Railway, Medical, Communication, Automotive and aerospace.

Acuite believes that the experience management and track record of operations of the group has benefitted them in maintaining a healthy relationship with its customers across various industries. This reduces the concentration risk across the group.

Weaknesses

- **Intensive working capital operations**

The working capital operations of the group are intensive marked by high Gross Current Asset (GCA) of 192 days (Provisional) in FY2020 as against 190 days in FY2019. The inventory holding period is high at 122 days (Provisional) and the debtor days stood at 51 days (Provisional) as on 31 March, 2020. The average bank limit utilization stood at more than 95 percent (Utilisation in the range of Rs.106.00 crore to Rs.113.00 crore) for the last six months ended May, 2020.

Acuite believes that the working capital cycle will remain intensive over the medium term because of the nature of the business and also due to ongoing COVID situation.

- **Average financial risk profile:**

The financial risk profile of the group is average marked by moderate net worth, debt protection measures and high leverage ratios. The tangible net worth stood at Rs.67.04 crore as on 31 March, 2020 (Provisional) as against Rs.54.21 crore as on 31 March, 2019. This includes quasi-equity of Rs. 29.74 crore as on 31 March, 2020 (Provisional) as against Rs.39.66 crore as on 31 March, 2019. The gearing though

improved but it stood high at 3.01 times as on 31 March, 2020 (Provisional) as against 3.88 times as on 31 March, 2019. The total debt of Rs.201.64 crore outstanding as on 31 March, 2020 (Provisional) comprises of Rs.11.16 crore term loans and Rs.190.48 crore as working capital borrowings. The interest coverage ratio deteriorated to 2.00 times in FY2020 (Provisional) from 2.30 times in FY2019. Debt Service Coverage Ratio (DSCR) stood at 1.58 times in FY2020 (Provisional) as against 1.60 times in FY2019. The total outside liabilities to tangible net worth (TOL/TNW) though improved, it is on higher-level marked by 5.33 times as on 31 March, 2020 (Provisional) as against 7.09 times as on 31 March, 2019.

Liquidity Position: Adequate

Group has adequate liquidity marked by moderate net cash accruals to meet its maturing debt obligations. It has generated cash accruals of Rs.17.35 to 28.74 crore during the last three years through 2018-20, while its maturing debt obligations were in the range of Rs.3.67 to 6.80 crore over the same period. The group's working capital operations are intensive as marked by gross current asset (GCA) days of 192 (Provisional) in FY2020. This has led to high reliance on working capital borrowings; the cash credit limit remains more than 95 percent (Utilisation in the range of Rs.106.00 crore to Rs.113.00 crore) utilized during the last six months period ended May, 2020. The group maintains unencumbered cash and bank balances of Rs.18.56 crore (Provisional) as on March 31, 2020. Acuite believes that the liquidity of the group is likely to remain adequate on account of adequate cash accrual vis-à-vis its repayment obligations over the medium term.

Outlook: Stable

Acuite believes the outlook on the group's rated facilities will remain 'Stable' on account of the company's established presence in the above-mentioned industries. The outlook may be revised to 'Positive' if the group achieves a sustained growth in revenues, profit margins and improves its capital structure. The outlook may be revised to 'Negative' in case the group registers a significant decline in cash accruals or stretched working capital cycle resulting in deterioration of its financial risk profile.

Rating Sensitivities

- Significant improvement in the scale of operations along with profitability margins.
- Deterioration in financial risk profile and working capital operations of the firm leading to stretched liquidity profile.

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	637.50	692.22
PAT	Rs. Cr.	19.44	19.62
PAT Margin	(%)	3.05	2.83
Total Debt/Tangible Net Worth	Times	3.01	3.88
PBDIT/Interest	Times	2.00	2.30

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Consolidation of companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-July-2020	PCFC	Long Term	30.00	ACUITE BB+/Stable (Assigned)
	PCFC	Long Term	22.00	ACUITE BB+/Stable (Assigned)
	PCFC	Long Term	28.50	ACUITE BB+/Stable (Assigned)
	PCFC	Long Term	25.00	ACUITE BB+/Stable (Assigned)
	PCFC	Long Term	23.00	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
PCFC	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BB+/Stable (Reaffirmed)
PCFC	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BB+/Stable (Reaffirmed)
PCFC	Not Applicable	Not Applicable	Not Applicable	28.50	ACUITE BB+/Stable (Reaffirmed)
PCFC	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BB+/Stable (Reaffirmed)
PCFC	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE BB+/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Saurabh Rane Analyst - Rating Operations Tel: 02249294044 saurabh.rane@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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