

Press Release

Avalon Technologies Private Limited

February 22, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	128.50	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	128.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of 'ACUITE BBB-' (read as ACUITE Triple B minus) on the Rs.128.50 Cr bank facilities of Avalon Technologies Private Limited (ATPL). The outlook is 'Stable'.

Rationale for Rating Reaffirmation

The reaffirmation in the rating takes into account the improvement in the business and financial risk profile of the Avalon Group (AG) in FY21 and 9MFY22 and expectations of further improvement in performance, backed by robust market sentiments in the Indian & global electronic contract manufacturing industry, and moderate order book position as on December 31, 2021.

About the Company

Incorporated in 1999, ATPL is engaged in the manufacturing of various electronic products viz. Printed Circuit Board Assemblies (PCBAs), cables & wire harnesses, etc., and offering integrated box build systems which are also termed as electromechanical integration (EMI) or system integration (SI). EMI is formed by integrating PCBAs, cables & wire harnesses, and various other electromechanical components. As a part of EMI, the company manufactures signalling systems for railways, inverter & charge controllers, industrial electric & automation systems for industrial plants, modular inverters & UPS solutions, diesel gensets & engines, compressor systems, etc. at its manufacturing facility located in Chennai, Tamil Nadu.

About the Group

AG, comprising ATPL, Avalon Technology and Services Private Limited (ATS), Sienna Corporation (Sienna) and Sienna ECAD Technologies Private Limited (ECAD), has capabilities across manufacturing of various electromechanical products. While ATPL focuses majorly on PCBAs, cables & wire harnesses and EMI, ATS focuses on PCBAs, cables & wire harnesses, PEM (PCBAs, EMI, magnetics) and MAP (metals, aerospace, plastics). Sienna is engaged in the same line of business as that of ATPL, catering to the US operations of the Group. On the other hand, ECAD is focused on designing of PCBs. Since all these companies are into similar line of business and require interdependence to manufacture the final integrated box build systems, they share significant operational & financial synergies between themselves. ATPL is the flagship company which, during FY21, has acquired 99.999 per cent stake in ATS, 94.20 per cent stake in ECAD, and has also acquired stake in Sienna.

Analytical Approach

ACUITE has considered the consolidated approach of the business and financial risk profiles of ATPL, ATS, Sienna and ECAD (together referred to as AG), since all these companies are into similar line of business and require interdependence. Hence, they share significant operational & financial synergies between themselves, whereas their day-to-day operations are looked after by the same management. Extent of consolidation: Full

Key Rating Drivers

Strengths

Established track record of operations and experienced management

AG was established in 1995 by Mr. Kunhamed Bicha and Mr. Bhaskar Srinivasan in the US, whereas it commenced its operations in India in 1998. The day-to-day operations are managed by the senior management team led by Mr. Kunhamed Bicha and Mr. Bhaskar Srinivasan, who possess an experience of over 3 decades in the diversified manufacturing industry. The Group has developed long-term relationships with customers and suppliers over the years, which have helped it in procuring repeated orders. Acuité believes that the Group will be benefitted over the medium term on the back of established presence in the industry for more than 2 decades.

Diversified and strong customer base

AG has a diversified and strong customer base, including reputed clientele viz. Kyosan India Private Limited, Alpha Technologies Services Inc., Einfochips Private Limited, Cummins Technologies India Private Limited, Robert Bosch Engineering and Business, etc. The diversified customer base and regular addition of new customers has led to healthy revenue growth rate. The revenues of the company grew at a compounded annual growth rate (CAGR) of 16 per cent over the last four years through FY21. Acuite believes that the experienced management and established track record of operations of the Group has benefited it in maintaining a healthy relationship with its customers across various industries, which also reduces the concentration risk across the group.

Improvement in the overall operating performance with moderate profit margins

The operating income of Avalon Group (AG) increased from Rs.640.41 Cr in FY20 to Rs.694.02 Cr in FY21, whereas the same stood at Rs.630.00 Cr in 9MFY22 (achieving more than 90 per cent of the whole-year operating income of FY21) owing to various domestic & global factors viz. focus on improvement in infrastructure, and improvement in the overall electronics contract manufacturing market sentiments in India & US, which is majorly driven by Make in India. The EBITDA margin of AG stood moderate at 9.44 per cent in FY21 as against 8.32 per cent in FY20, whereas the same improved in FY21 over FY20 owing to optimization of various fixed & overhead costs on the back of an increase in the scale of operations in that year. The same improved further to 12.66 per cent in 9MFY22 owing to optimization of employee costs on the back of higher scale of operations in that period. Given this, the PAT margin also improved from 1.69 per cent in FY20 to 4.80 per cent in FY21 and further to 9.57 per cent in 9MFY22. Given this, the PAT increased from Rs.10.85 Cr in FY20 to Rs.33.32 Cr in FY21 and further to Rs.60.40 Cr in 9MFY22.

Moderate order book position

The order book position of AG stood moderate with open orders worth USD 104.27mn (Rs.782 Cr) as on December 31, 2021, which are to be executed over a period of 3-9 months. Hence, majority of the said order book shall be translated into the revenues in FY23, which provides medium-term revenue visibility for the Group. The said orders include orders received by ATPL, ATS, Sienna and ECAD, from the existing customers as well as new customers.

Weaknesses

Leveraged capital structure, albeit improving

The company has followed a moderately aggressive financial policy in the past, as reflected by peak gearing of around 4.46 times as on March 31, 2019. The leverage level in the current year however is estimated to improve to around 1-1.50 times over FY22-FY23. However, the overall gearing improved in FY21 over FY20 owing to healthy accretion in reserves on the back of healthy profitability achieved in FY21 and 9MFY22. Given this, coupled with decrease in interest costs, the debt coverage indicators also improved with the interest coverage and DSCR having improved from 1.75 times and 1.36 times respectively in FY20 to 3.37 times and 2.24 times respectively in FY21, whereas the same stood comfortable.

Working capital intensive nature of operations

The operations of AG are working capital intensive in nature with a majority of funds blocked in inventory and debtors. The inventory holding stood elongated at 117 days in FY21 as against 123 days in FY20, whereas the collection period stood elongated at 110 days in FY21 as against 64 days in FY20, however the elongation was owing to faster receivables turnaround of the dues paid by Sienna to ATPL, thereby decreasing the intercompany debtors. On the other hand, the creditors' period stood elongated at 164 days in FY21 as against 150 days in FY20. Given all of the above, the working capital cycle and gross current assets days also elongated from 37 days and 201 days respectively in FY20 to 63 days and 239 days respectively in FY21. Given this, the average WC utilization in the last 6 months ended December 2021 stood moderately high at 75.98 per cent in case of ATPL and 85.93 per cent in case of ATS.

Rating Sensitivities

- Significant increase in the scale of operations along with improvement in the profit margins.
- Improvement in the overall financial risk profile.
- Improvement in the working capital management and overall liquidity profile.

Material covenants

None

Liquidity Position: Adequate

The liquidity profile of AG is adequate marked by moderate net cash accruals and healthy unencumbered cash & bank balance. The operations of the Group are working capital intensive in nature with gross current assets days and working capital cycle of 239 days and 63 days respectively in FY21 as against 201 days and 37 days respectively in FY20. Given this, the average working capital utilization in the last 6 months ended December 2021 stood moderately high at 75.98 per cent in case of ATPL and 85.93 per cent in case of ATS. Moreover, the Group generated moderate net cash accruals worth Rs.20.94 Cr and Rs.43.61 Cr in FY20 and FY21 respectively as against moderately low debt repayment obligations worth Rs.6.56 Cr and Rs.8.07 Cr in those respective years. The Group is expected to generate net cash accruals in the range of Rs.75-90 Cr over FY22-FY23, as against debt repayment obligations worth Rs.7-10.50 Cr over the same period. Furthermore, the current ratio stood moderate at 1.05 times as on March 31, 2021 as against 0.90 times as on March 31, 2020. Additionally, the free cash & bank balance stood healthy at Rs.23.77 Cr as on March 31, 2021 as against Rs.17.33 Cr as on March 31, 2020.

Outlook: Stable

Acuité believes the outlook on ATPL's rated facilities will remain 'Stable' on account of the company's established presence in diversified end-user 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 profitability or cash accruals or stretched working capital cycle resulting in deterioration in its overall financial risk profile.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	694.02	640.41
PAT	Rs. Cr.	33.32	10.85
PAT Margin	(%)	4.80	1.69
Total Debt/Tangible Net Worth	Times	3.00	4.23
PBDIT/Interest	Times	3.37	1.75

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Feb 2022	Proposed Bank Facility	Long Term	2.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Packing Credit	Long Term	48.50	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Packing Credit	Long Term	25.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Packing Credit	Long Term	30.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Packing Credit	Long Term	23.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
29 Sep 2020	Packing Credit	Long Term	28.50	ACUITE BB+ Stable (Reaffirmed)
	Packing Credit	Long Term	30.00	ACUITE BB+ Stable (Reaffirmed)
	Packing Credit	Long Term	22.00	ACUITE BB+ Stable (Reaffirmed)
	Packing Credit	Long Term	23.00	ACUITE BB+ Stable (Reaffirmed)
	Packing Credit	Long Term	25.00	ACUITE BB+ Stable (Reaffirmed)
07 Jul 2020	Packing Credit	Long Term	23.00	ACUITE BB+ Stable (Assigned)
	Packing Credit	Long Term	25.00	ACUITE BB+ Stable (Assigned)
	Packing Credit	Long Term	22.00	ACUITE BB+ Stable (Assigned)
	Packing Credit	Long Term	28.50	ACUITE BB+ Stable (Assigned)
	Packing Credit	Long Term	30.00	ACUITE BB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB- Stable Reaffirmed
Standard Chartered Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB- Stable Reaffirmed
Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE BBB- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	48.50	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Sonali Ved Senior Analyst-Rating Operations Tel: 022-49294065 sonali.ved@acuite.in	

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in KanjurMarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité