Press Release

Avalon Technology and Services Private Limited

February 02, 2022

Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	39.00	ACUITE BBB- | Stable | Upgraded	-
Total Outstanding Quantum (Rs. Cr)	39.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has upgraded its long-term rating to 'ACUITE BBB-' (read as ACUITE Triple B minus) from 'ACUITE BB+' (read as ACUITE Double B plus) on the Rs.39.00 Cr bank facilities of Avalon Technology and Services Private Limited (ATS). The outlook is 'Stable'.

Rationale for Rating Upgrade

The upgrade 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 2021.

About the Company

Incorporated in 2008, Avalon Technology and Services Private Limited (ATS) is engaged in the manufacturing of various electromechanical products viz. fabricated sheet metal for automotive, aerospace & others, CNC machine tools, injection moulded plastics, magnetics, Printed Circuit Board Assemblies (PCBAs), cables & wire harnesses, etc. The company is also engaged in 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 crew seats & cabin parts, actuator, breaking systems & HVAC parts, signalling switches, etc. at its manufacturing facilities located in Chennai, Tamil Nadu and Bangalore, Karnataka. During FY21, ATPL has acquired 99.999% stake in ATS.

About the Group

AG, comprising Avalon Technologies Private Limited (ATPL), 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 99.999per cent stake in ATS, 94.20per 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 90per 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 9.44per cent in FY21 as against 8.32per 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 12.66per 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 1.69per cent in FY20 to 4.80per cent in FY21 and further to 9.57per 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 says 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% in case of ATPL and 85.93per 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 75.98per cent in case of ATPL and 85.93per 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 ATS'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 Istruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 Oct 2020	Packing Credit	Long Term	39.00	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	39.00	ACUITE BBB- | Stable | Upgraded (from ACUITE BB+)

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About Acuité Ratings & Research

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