Press Release

Avalon Technology and Services Private Limited

December 06, 2022

Rating Reaffirmed & Withdrawn

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Bank Loan Ratings	39.00	ACUITE BBB- | Reaffirmed & Withdrawn	-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Total Withdrawn Quantum (Rs.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

Rating Rationale

Acuité has reaffirmed and withdrawn its long-term rating of **'ACUITE BBB-' (read as ACUITE Triple B minus)** on the Rs.39.00 Cr bank facilities of Avalon Technologies And Services Private Limited (ATSPL).

The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating. The rating is being withdrawn on account of request received from the company and NOC received from the banker.

Rationale for Rating Reaffirmation
The rating reaffirmation takes into consideration the long track record of operations of the group in the manufacturing of electronic products segment as well as the improvement in the revenues of the Group in FY2022. The revenue of the Group stood at Rs.840.72 crore in FY2022 compared to revenue of Rs.690.47 crores in FY2021. The ratings also factors in the moderate financial risk profile and adequate liquidity position of the Group. However the ratings are constrained by the working capital intensive operations of the group.

About Company

Incorporated in 2008, ATSPL 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, Avalon Technologies Private Limited (ATPL) has acquired 99.999 per cent stake in ATSPL.

About the Group

Avalon Group (AG), comprising ATPL, ATSPL, 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, ATSPL 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.

Analytical Approach

Extent of Consolidation

• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuite has considered the consolidated approach of the business and financial risk profiles of ATPL and its subsidiaries ATSPL, Sienna and Sienna ECAD together referred to as AG due to operational & financial synergies and common management.

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.

Improvement in the operating performance

The revenue of the Group improved and stood at Rs.840.72 crore in FY2022 compared to revenue of Rs.690.47 crores in FY2021. The increase in the revenue is majorly due to the increase in the demand for the products as well as addition of new customers. The operating profit margin of the Group improved and stood at 12.29 percent in FY2022 compared against 9.47 percent in FY2021. The increase in the operating margins is due to improvement in the revenues. The PAT margin stood at 8.11 percent in FY2022 against 3.34 percent in FY2021.

Moderate financial risk profile

The Group has a moderate financial risk profile marked by tangible net worth of Rs.86.56 crore as on 31 March 2022 as against Rs.27.39 crore on 31 March 2021. The increase in networth is due to accretion of profits in reserves. The gearing level of the Group stood at 3.59 times as on 31 March 2022 as against 11.35 times as on 31 March 2021. The total debt of the group comprised of long term debt of Rs.44.81 crores, unsecured loans of Rs.46.38 crores and short term debt of Rs.207.18 crore as on 31 March 2022. The group has added covid loans in FY2022. The coverage ratios of the group remained moderate with Interest Coverage Ratio (ICR) of 5.17 times for FY2022 as against 2.65 times for FY2021. The Debt Service Coverage Ratio (DSCR) stood at 3.23 times for FY22 as against 2.07 times for FY21. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 5.60 times as on 31 March 2022 as against 16.83 times as on 31 March 2021.

Weaknesses

Working capital intensive nature of operations

The Group's operations are working capital intensive as evident from Gross Current Asset (GCA) of 194 days as on March 31, 2022, as against 200 days as on March 31,2021. The inventory days stood at 115 days for FY2022 compared against 85 days for FY2021. The inventory is high in FY2022 because there was shortage of components, and the Group was hence required to stock up the required materials for making the products. The Group normally stocks up inventory on the basis of the orders received. The average inventory days are around 90-100 days. The debtor days improved and stood at 77 days for FY2022 as against 96 days for FY2021. Average credit period allowed is around 60 days. The creditor days of the group stood at 81 days for FY2022 as against 102 days for FY2021. The average credit period received is around 60 days.

Rating Sensitivities

Any elongation in the working capital cycle.

Material Covenants

None

Liquidity position: Adequate

The group has adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.85.36 crore in FY2022 compared against maturing debt obligations of Rs.9.28 crore over the same period. The group maintains unencumbered cash and bank balances of Rs.7.76 crore as on March 31, 2022 and the current ratio also stood moderate at 1.10 times as on March 31, 2022.

Outlook:

Not applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	840.72	690.47
PAT	Rs. Cr.	68.17	23.08
PAT Margin	(%)	8.11	3.34
Total Debt/Tangible Net Worth	Times	3.59	11.35
PBDIT/Interest	Times	5.17	2.65

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

India Ratings vide its press release date july 28, 2022, reaffirmed ATSPL to INDBB+/A4+; INC

Any Other Information

None

Applicable Criteria

• 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
• 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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisa"on of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow pa&erns, number of counterpar"es and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Ra"ng Criteria "Complexity Level Of Financial Instruments" on **www.acuite.in.**

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Feb 2022	Packing Credit	Long Term	39.00	ACUITE BBB- | Stable (Reaffirmed)
02 Feb 2022	Packing Credit	Long Term	39.00	ACUITE BBB- | Stable (Upgraded from ACUITE BB+ | Stable)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	39.00	ACUITE BBB- | Reaffirmed & Withdrawn

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.