## Press Release

**AVDHOOT TECHNOCRATS PRIVATE LIMITED (ERSTWHILE AVDHOOT HEAT PRIVATE LIMITED)**

**June 09, 2023**

**Rating Assigned**

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|---|---|---|
| **Bank Loan Ratings** | 20.00 | ACUITE BB- \| Stable \| Assigned | - |
| **Total Outstanding Quantum (Rs. Cr)** | 20.00 | - | - |

## Rating Rationale

Acuitè has assigned its long-term rating of **'ACUITE BB-' (read as ACUITE double B minus)** to Rs. 20.00 crore bank facilities of Avdhoot Technocrats Private Limited (ATPL). The outlook is **'Stable'.**

**Rationale for rating assigned**

The rating assigned factors in the long track record of operations of the company along with the extensive experience of the promoters in the industrial heat treatment industry. The rating also factors in the healthy improvement in the operating performance of the company marked by CAGR growth in its revenue of 16.64 percent over the last three years through FY23. The profitability of the company has also witnessed marginal improvement and stood at 25.03 percent in FY23 (Provisional) as against 24.83 percent in FY22 and 20.66 percent in FY21. However, the rating is constrained by below average financial risk profile of the company marked by low networth and high debt to equity ratio of 7.39 times as on 31 March 2023 (Provisional). The liquidity position of the company also remained stretched reflected by full utilisation of working capital limits owing to working capital intensive nature of operations.

## About the Company

Incorporated in 1980, Avdhoot Technocrats Private Limited (ATPL) in a Maharahstra based company engaged in providing industrial heat treatment services and manufacturing of forging and machining. The manufacturing facility of the company is located at Nashik in Maharashtra. ATPL is promoted by Mr. Vineet Pol and Mr. Prakash Pol who have over three decades of experience in the industry.

## Analytical Approach

Acuite has considered the standalone business and financial risk profile to arrive at the rating of ATPL

## Key Rating Drivers

### Strengths

**Long track record of operations and experienced management**

ATPL is based out of Maharashtra and is incorporated in 1980 reflecting its long track record of operations of over three decades in providing industrial heat treatment services. The company is promoted by Mr. Vineet Pol and Mr. Prakash Pol who have a wide experience in the industrial heat treatment sector. The operations of the company are managed by a qualified and well experienced senior management team who are ably supported by a strong line of mid-level managers. The extensive experience of the promoters and the management has helped the company to establish long and healthy relationship with reputed customers and suppliers over the years. The key customers of the company include names such as JBM Auto Limited, Right Tight Fastners Private Limited and National Engineering Industries Limited among others.

Acuité believes that ATPL will continue to benefit from its established track record of operations and experienced promoter.

**Healthy operating performance**

ATPL provides a variety of industrial heat treatment services majorly to the OEM manufacturers in the automobile industry. In addition to heat treatment services, the company in 2020 has started manufacturing forgings and machining as a part of their backward integration initiative. The contribution of the manufacturing segment to its revenues is 25 percent and that of services is ~75 percent. ATPL over the last three years has registered a healthy growth in its revenue with a CAGR of 16.64 percent over FY21-23 (Provisional) period. The revenue of the company stood at Rs.25.40 crore in FY23 (Provisional) as against Rs.24.58 crore in FY22 and Rs. 16.01 crore in FY21. The improvement is majorly on account of growth in the manufacturing segment of the business. The share of component manufacturing increased from 17.88 percent in FY21 to 25.36 percent in FY23 (Provisional.). The operating margins of the company have shown a growth 436 bps over the last three years at the back of decline in input costs. The operating margin of the company stood at 25.03 percent in FY23 (Provisional) as against 24.83 percent in FY22 and 20.66 percent in FY21. The PAT Margins have also improved at 5.69 percent in FY23 (Provisional) as against 1.82 percent in FY22 and losses in FY21.
Acuité believes that the business risk profile of the company is likely to continue to improve on the back of reputed clientele and healthy demand expected over the near to medium term.

## Weaknesses

**Below average financial risk profile**

The financial risk profile of the company is below average marked by low networth, high gearing and moderate debt protection metrics. The tangible networth of the company stood at Rs. 3.29 crore as on March 31, 2023 as against Rs. 1.56 crore as on March 31, 2022. The networth of the company as on March 31, 2021 remained negative on account of losses incurred by the company because of delay in implementation of capex for setting up of its manufacturing activities. Total debt of the company Rs. 24.34 crore as on March 31, 2023 (Provisional) as against Rs. 26.50 crore as on March 31, 2022 and Rs. 31.55 crore as on March 31, 2021. The management follows an aggressive financial policy marked by high Gearing (Debt to equity) at 7.39 times as on March 31, 2023 (Provisional) as against 17.03 times as on March 31, 2022. However, the gearing is likely to improve in the near to medium term on account of expected improvement in net worth led by likely increase in accretion of profits to reserves. The TOL/TNW (Total outside liabilities/Tangible Networth) has improved over the years however remains high at 8.65 times as on March 31, 2023 (Prov) as against 20.53 times as on March 31, 2022. Furthermore, the debt protection metrics of the company remained moderate with DSCR (Debt service coverage ratio) of 1.42 times and Interest Coverage Ratio of 2.85 times for FY23 (Provisional) as against 1.35 times for both in FY22 respectively.
Acuite believes improvement in ATPL's financial risk profile over the medium term will remain a key rating monitorable.

**Working capital intensive nature of operations**

The working capital operations of the company are intensive reflected by fully utilised bank limits owing to high GCA days of 102 days in FY23 (Provisional) as against 121 days in FY22 and 159 days in FY21. The GCA days are majorly driven by the debtor collection period. The debtor collection period of the company stood improved and stood at 66 days in FY23 (Provisional) as against 92 days in FY22 and 121 days in FY21. For the heat treatment services ATPL requires consumables like Quenching Oil, Liquid Nitrogen and polymer which are regularly maintained by the company. For manufacturing of forgings steel is maintained for 10- 12 days basis the order received by the company. The inventory holding period of the company stood at 37 days in FY23 (Provisional) as against 26 days in FY22 and 28 days in FY21. The creditor days of the company stood at 83 days in FY23 (Provisional) as against 151 days in FY22 and 203 days in FY21. The working capital-intensive nature of operations has led to high reliance on bank limits marked by average utilisation of fund based bank limits at 94 percent for 6 months ended April 2023.

Acuité believes that the ability of the company to manage its working capital operations will remain a key rating sensitivity over the medium term.

**High customer concentration risk**
ATPL is exposed to high customer concentration risk since ~50 per cent of the operating income in FY23 is derived from three customer. Further, out of these three customers, ~20-30 percent of the revenue generated over the last two years is from a single customer, i.e. JBM Auto Limited. However, such risk is partly mitigated by the long-standing relationship with such customers over a decade.

## Rating Sensitivities

- Improvement in the scale of operation while maintaining its profitability margin at the current level.
- Any deterioration or stretch in the working capital cycle on account of further elongation in debtor collection period leading to stretched liquidity.

## Material covenants

None

## Liquidity Position

**Stretched**

The liquidity of the company is stretched reflected by high reliance on bank limits. The average bank limit utilisation of the company stood at 94 percent for 6 months ended April 2023. The Net cash accruals have however remained adequate to meet its debt service obligations. The net cash accruals of the company stood at Rs.4.29 crore in FY23 (Prov.) as against debt service obligations of Rs.2.29 crore for the same period. The net cash accruals of the company likely to remain adequate to meet its debt service obligations in the near to medium term. The company maintains net cash accruals of Rs.0.03 crore as on March 31, 2023 (Prov). The current ratio of the company stood below unity at 0.87 times as on March 31, 2023 (Prov.)

## Outlook: Stable

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## Other Factors affecting Rating

None

**Key Financials**

| Particulars | Unit | FY 23 (Provisional) | FY 22 (Actual) |
|---|---|---|---|
| Operating Income | Rs. Cr. | 25.40 | 24.58 |
| PAT | Rs. Cr. | 1.45 | 0.45 |
| PAT Margin | (%) | 5.69 | 1.82 |
| Total Debt/Tangible Net Worth | Times | 7.39 | 17.03 |
| PBDIT/Interest | Times | 2.85 | 2.32 |

**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
• Service Sector: https://www.acuite.in/view-rating-criteria-50.htm
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.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 categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties 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 Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

**Rating History :**
Not Applicable

## Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|---|---|---|---|---|---|---|---|---|
| Saraswat Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 4.00 | ACUITE BB- \| Stable \| Assigned |
| Saraswat Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 5.31 | ACUITE BB- \| Stable \| Assigned |
| Saraswat Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 1.16 | ACUITE BB- \| Stable \| Assigned |
| Saraswat Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 0.87 | ACUITE BB- \| Stable \| Assigned |
| Saraswat Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 8.66 | ACUITE BB- \| Stable \| Assigned |

## Contacts

| Analytical | Rating Desk |
|---|---|
| Aditya Gupta<br>Vice President-Rating Operations<br>Tel: 022-49294041<br>aditya.gupta@acuite.in<br><br>Deepti Bhandarkar<br>Lead Analyst-Rating Operations<br>Tel: 022-49294065<br>deepti.bhandarkar@acuite.in | Varsha Bist<br>Senior Manager-Rating Operations<br>Tel: 022-49294011<br>rating.desk@acuite.in |

**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.