



## Rating Rationale

31 Jan 2020

### Avalon Technology & Services Private Limited

**Brickwork Ratings assigns ratings for the Bank Loan Facilities of Rs.39.00Crores of Avalon Technology & Services Private Limited. ('ATSPL' or the 'Company')**

#### Particulars

Facility**	Amount (Rs Cr)	Tenure	Rating*
<b>Fund Based</b>			
Cash Credit#	(20.00)	Long Term	<b>BWR BB/Stable Assigned</b>
External Packing Credit	39.00	Short Term	<b>BWR A4 Assigned</b>
<b>Total</b>	<b>39.00^</b>	<b>INR Thirty Nine Crores Only</b>	

\*Please refer to BWR website [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the ratings ; #Cash Credit is a sublimit of EPC

\*\* Details of Bank facilities are provided in Annexure I; ^In addition to the above facilities, ATSPL has forward contract of Rs.40.00Crores availed from Indian Bank which is not rated by BWR at the request of the company

#### Rating Action/Outlook

The ratings reflect the promoters' extensive experience in the Electronic Manufacturing Services industry, strength derived from group support, diversified product portfolio and established relationships with customers. The ratings are constrained by the moderate financial risk profile marked by modest revenue and volatile profitability, customer concentration and geographical concentration risk, intense competition in the electronic manufacturing services industry, exposure to forex fluctuations and working capital intensity of operations.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that **Avalon Technology & Services Pvt Ltd's** business risk profile will be maintained over the medium term. The outlook may be revised to Positive if the revenues and profit show sustained improvement leading to improvement in cash accruals and strengthening of financial risk profile. The outlook may be revised to Negative if the revenues go down, profit margins show lower than expected figures, working capital cycle is stretched pressurizing the liquidity position or any major debt funded capital expenditure leads to stress on the financial risk profile of the company.

#### Key Rating Drivers

#### Credit Strengths:

#### Experienced management and established track record

ATSPL was established in April 2008 and has an operational track record of about 12 years. The promoters are well experienced in the Electronic Manufacturing Services (EMS) industry and are supported by a team of



experienced professionals. The extensive experience of the promoters and their understanding of the dynamics of the industry are expected to support the business risk profile.

**Group Support:**

Avalon Technologies & Services Pvt Ltd is a part of Chennai based Sienna Group that is engaged in end to end Electronic Manufacturing Service (EMS) solutions and manufacturing of printed circuit assemblies/boards, custom cable & wire harnesses, metals, plastics, magnetics with enhanced capabilities in engineering design and development. Avalon Technologies Private Limited (ATPL) is the flagship company of Sienna Group. Avalon Technology & Services Private Limited is a 100% subsidiary of ATPL with effect from 25th September 2019

**Established relationships with customers**

Over the years, the group has fostered relationships with leading domestic retailers and export clients establishing a strong client base. The company has been getting repeat business from these clients on a sustained basis, which has facilitated growth in its scale of operations. This also reflects favourably on the company's track record and competitive positioning in the Electronic Manufacturing Services sector. Some of the key clients are Avalon Technologies Pvt Ltd, Sienna Corporation INC, Sienna ECAD technologies Pvt Ltd ,Ezetap Mobile Solutions Pvt Ltd and Goodrich Aeroservices Pvt Ltd. These 5 clients contribute ~49% of total sales. Collins Aerospace, Faiveley Transport Rail Technologies India Limited, The US-Malabar Company, Inc., Amphenol Omniconnect India Private Limited etc are some of the other well reputed companies with whom ATSP has established strong relationships over the years.

**Diversified Product Portfolio:**

Avalon Technology & Services Pvt Ltd caters to multiple industry segments with a specific focus on Aerospace, Rail and Industrial. The company is broadly divided into two business divisions, namely MAP (Metal, Aerospace, Plastics) and PEM (PCB, Electromechanical integration and Magnetics). MAP is approximately 60% of ATSP's business and PEM amounts to 40% of the business. MAP further splits into 50% Aerospace and 50% General Metals (the term General Metals refers to metal and machining components that are non-Aerospace in nature). Pure PCB assemblies constitute about 30% of total ATSP business. Thus, the non-electronic components of ATSP's business is close to 70%. Some of the major products manufactured by ATSP are sheet metal fabricated parts, machined components and assemblies, sheet metal and formed parts, plastic injection and molded parts, magnetic products, Electro Mechanic and Integrated Assemblies and Printed Circuit and Assembly Boards. The various segments to which the company caters to are aerospace, telecom, railways, medical, industrial automotive etc.

**Credit Challenges:**

**Moderate financial risk profile**

ATSP's financial risk profile is moderate with modest revenue, thin profitability, high gearing and moderate debt protection metrics. Net sales improved to Rs.114.24 Crs for FY19 as against Rs. 89.34 Crs in FY18. Net Profit margins of ATSP have been volatile over the last three years (2.46% in FY17; 1.48% in FY18; 2.71% in FY19). Interest coverage was moderate at 3.04 times as on 31 Mar 2019 (1.74 times as on 31 Mar 2018). Tangible Net Worth was modest at Rs. 10.71Crores and Gearing was high at 3.53 times as on 31 Mar 2019. BWR has taken note of the comments by the statutory auditors in the Annual Report 2019 regarding delays in payment of undisputed statutory dues and belated payments in respect of term loans. However, the management has confirmed that these have been settled as on date and that the term loans have been repaid.



### **Highly competitive nature of the industry and modest scale of operations**

The company operates in a highly competitive business environment, facing stiff competition from both organised and unorganised players. The intense competition in the industry continues to limit its bargaining power/ pricing ability, thereby constraining its margins. Further, the scale of operations of the company is comparatively modest.

### **Customer Concentration and Geographical concentration risk**

The top 5 customers viz (Avalon Technologies Pvt Ltd, Sienna Corporation INC, Sienna ECAD technologies Pvt Ltd , Ezetap Mobile Solutions Pvt Ltd and Goodrich Aeroservices Pvt Ltd contribute ~49% of the company's revenue. Of these top 5 clients, Avalon Technologies Private Limited, Sienna Corporation INC and Sienna ECAD technologies Pvt Ltd are part of the same group. These group companies/related parties have contributed approximately 31% of the total sales of ATSP. Revenues and earnings depend on the performance of its key customers, apart from other factors such as regulations and duty structures across markets. The risk is mitigated to an extent by the established relationships with its key clientele and addition of new customers in recent fiscals. Moreover, the majority of the domestic clientele are based in Tamil Nadu and Karnataka exposing the company to geographical concentration risk. Acquiring and establishing relationships with clients across various states would mitigate this risk to a certain extent.

### **Exposure to forex fluctuations**

The company is exposed to volatility in forex rates as it derives about ~30% of its revenue (in FY19) from exports to countries such as the United States of America, Singapore, People's Republic of China, Germany, United Kingdom, Italy etc. ATSP has a forward contract facility sanctioned by Indian Bank which has not been utilized by the company for hedging forex exposure

### **Working capital intensive operations**

Avalon Technology & Services Pvt Ltd operates in a highly working capital intensive industry as can be observed from high holding period of inventory of 108 days as on March 31, 2019. Receivable days are stretched at 82 days as on March 31, 2019. Further, ATSP utilized approximately 95% of their working capital facilities in the last 6- 9 months and hence has limited access to additional fund based limits.

### **Analytical Approach and Applicable Rating Criteria**

BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

### **Rating Sensitivities**

Going forward, the ability of the company to increase its scale of operations, improve profitability, efficiently manage its working capital requirements, strengthen its liquidity and overall credit profile would be the key rating sensitivities.

#### **Positive:**

- Sustained and significant growth in revenue and improvement in profitability, leading to substantial cash accruals
- Prudent management of working capital, resulting in better liquidity

#### **Negative :**

- Deterioration of financial risk profile due to further stretch in working capital cycle or large debt funded capital expenditure.



- Lower price realisations, increase in input costs due to changes in raw material prices.
- Specific credit metrics that could lead to a downgrade ATSP's rating include (1) Total Debt/Tangible above 3.50 times on a sustained basis, (2) Net Profit Margin below 2.50% on a sustained basis
- Continued delays in payment of statutory dues

### **Liquidity Position: Stretched**

Approximately 95% of working capital has been utilized over the last 6 to 9 months and hence the company has limited access to additional working capital facilities. Current ratio is low at 0.74 times as of March 31, 2019. Cash and Cash Equivalents were Rs.4.67Cr as on 30 Sep, 2019 (Provisional). ATSP has a high inventory holding period of 108 days as on March 31, 2019 and stretched receivable days of 82 days as on March 31, 2019. The company does not have any long term debt obligations.

### **About the Company**

Avalon Technology and Services Pvt Ltd was incorporated in 2008 at Chennai, Tamil Nadu. ATSP is engaged in manufacturing of metals fabrications, Plastics, Electro Mechanical Integration, Magnetics, PCB assemblies, transformers cable harness etc. ATSP has its production facility in MEPZ, Chennai, India (SEZ) and Bangalore, Karnataka. The Chennai facility primarily caters to exports and the facility in Bangalore caters to Indian domestic market. ATSP is a 100% subsidiary of Avalon Technology Private Limited with effect from 25th September 2019. In FY 2019, the Company derived more than 70% of its revenue from the domestic market and remaining from the international market. It mainly exports to countries like the United States of America, Singapore, People's Republic of China, Germany, United Kingdom, Italy etc. End user industries of the Company are from aerospace, telecom, railways, medical, defence, industrial, and power.

Mr.T.P Imbichammad is the Managing Director. The other directors are Mr.M.Kunhamed Bicha, Mr.Anand Kumar and Mr.Bhaskar Srinivasan

### **About the Group:**

The Company is part of the Chennai based Sienna Group that is engaged in end to end Electronic Manufacturing Service (EMS) solutions and manufacturing of printed circuit assemblies/boards, custom cable & wire harnesses, metals, plastics, magnetics with enhanced capabilities in engineering design and development. It caters to several industries such as railways, aerospace & defence, power & energy, communications, medical, oil & gas etc. Apart from India, the Group has operations in the USA in Atlanta, Georgia and in Fremont in California. The companies that are part of Sienna group are Sienna Corporation (USA), Sienna ECAD Technologies Private Limited, Avalon Technologies Private Limited and Avalon Technology and Services Private Limited (ATSP)

### Key Financial Indicators

Key Parameters	Units	2018	2019
<b>Result Type</b>		<b>Audited</b>	<b>Audited</b>
Revenue from Operations	Rs. Cr	89.34	114.24
EBIDTA	Rs. Cr	4.59	10.75
PAT	Rs. Cr	1.32	3.10
Tangible Net worth	Rs. Cr	7.65	10.71
Total Debt/Tangible Net worth	Times	2.48	3.53
Current Ratio	Times	0.70	0.74

During 9MFY20, on a provisional basis, the company reported total operating income of ~Rs.95 Crore.

**Key Covenants of the facility rated:** The terms of sanction include standard covenants normally stipulated for such facilities.

**Status of non-cooperation with previous CRA - India Ratings,** vide its press release dated 09 May 2018, has migrated its ratings of the bank loan facilities of the company to the Issuer Not Cooperating\* category on account of non availability of requisite information needed for the rating exercise

*\*Issuer did not cooperate; based on best available information*

### Rating History for the last three years

Facility	Current Rating (Jan 2020)			Rating History		
	Type	Amount (Rs. Crs)	Rating	2018	2017	2016
<b>Fund Based</b>						
Cash Credit#	Long Term	(20.00)	<b>BWR BB/Stable</b>	NA	NA	NA
External Packing Credit	Short Term	39.00	<b>BWR A4</b>	NA	NA	NA
<b>Total</b>		<b>39.00^</b>		<b>Rupees Thirty Nine Crores Only</b>		

#Cash Credit is a sublimit of EPC; ^In addition to the above facilities, ATSPL has forward contract of Rs.40.00Crores availed from Indian Bank which is not rated by BWR at the request of the company

### Complexity Levels of the Instruments:

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

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**Avalon Technologies & Services Pvt Limited**

**Annexure I  
Details of Bank Facilities rated**

Sl No.	Name of the bank	Facility	Long Term (Rs Crs)	Short Term (Rs Crs)	Total (Rs Crs)
1	Indian Bank, MEPZ Tambaram Branch, Chennai	Cash Credit#	(20.00)	-	(20.00)
		EPC	-	39.00	39.00
<b>Total : Rupees Thirty Nine Crores Only</b>					39.00 <sup>^</sup>

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