

RATING RATIONALE

18 Sep 2019

Avon Meters Pvt. Ltd.

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 145 Crores of Avon Meters Pvt. Ltd.

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (April 2019)	Present
Fund Based Cash Credit	35.00	30.00	Long Term	BWR BBB (Pronounced as BWR Triple B) Stable	BWR BBB (Pronounced as BWR Triple B) Stable (Reaffirmed)
Non Fund Based BG	-	90.00			
Non Fund Based ILC/FLC BG	25.00 90.00	25.00 -	Short Term	BWR A3 (Pronounced as BWR A Three)	BWR A3 (Pronounced as BWR A Three) (Reaffirmed)
Total	150.00	145.00	INR One Hundred & Forty Five Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK: Reaffirmed at BWR BBB (Stable)/ BWR A3

The reaffirmation of ratings for the bank facilities of Avon Meters Pvt Ltd. reflects the company's moderate financial risk profile indicated by its comfortable gearing (0.94x in FY19 against 1.11x in FY18), moderate net worth of Rs 44.34 Crs in FY19 against Rs 35.60 Crs in FY18, and above average debt coverage ratios of ISCR 2.07x in FY19 against 2.92x in FY18. The ratings further derive strength from the healthy order book position (unexecuted value ~ Rs.193 Crs) of the company providing for medium term revenue visibility and long experience of the promoters in successful execution of projects for various state discoms. These strengths are partially offset by the limitations such as high working capital requirements, intensely competitive business environment and the company's revenues being subjected to successful bidding of the tenders placed by various government agencies.

OUTLOOK: STABLE

The ratings have been assigned a stable outlook as the company's business risk profile is expected to be maintained over the medium term. The outlook may be revised to positive in case the revenues and profits show a sustained improvement. It may be revised to negative if the revenues go down and profits show lower than expected figures.

KEY RATING DRIVERS

Credit Strengths:

- **Experienced Management:** Avon Meters Pvt Ltd. was established by Mr R N Gupta in 1995. His long term experience at various levels in Haryana State Electricity Board & BBMB helped the company in getting accreditation from 28 state electricity boards for participation in their tenders. Other directors on the board of the company are Mr Nikhil Goel, Mr. Anil Gupta and Mr Natwar Goel.
- **Moderate Financial Risk Profile:** Total Debt/TNW & TOL/TNW ratio of the company stood comfortable at 0.94x & 2.47x in FY19 because of nil long term secured debt & moderate outstanding short term debt of Rs 18.85 Crs. The company has also availed unsecured loans of ~ Rs 20 Crs from its directors & relatives to fund its working capital needs, which if adjusted to the total debt, brings the gearing ratio down to 0.74x. Further, there are no large debt funded capital expenditure plans of the company during FY20, which is expected to keep the gearing of the company in 0.7x-1.0x range. The company's ISCR, although deteriorated with respect to FY18 because of higher finance costs on availment of bank guarantees and interests paid on unsecured loans, stood moderate at 2.07x in FY19.
- **Medium term revenue visibility:** Company's unexecuted order book of Rs 193 Crs coupled with possibility of conversion of tenders worth Rs. 144 Crs provides medium term visibility to the company's cash inflows. The fact that the company is participating in the tenders of state discoms at pan India level, mitigates the revenue concentration risks to a large extent.

Credit Risks:

- **High working capital requirements:** The company has availed non fund based facilities of Rs 115 Crores from various banks which in turn require cash margins from the company in the form of fixed deposits. The bank guarantees are issued for a long period of time (5-6 years) as warranty for the meters installed by the company for its clients. Resultantly, the company has liened ~ Rs 24 Crs worth of fixed deposits in favor of the banks for 5-6 years, depending upon the contract. In addition, the company's collection period usually remains high (120-150 days) as the clients (public sector entities in this case) tend to stretch the payments. The company's receivable and payable days stood at 178 & 167 days respectively in FY19, indicating stretched liquidity.
- **Foreign Currency Fluctuation Risk:** The company is exposed to forex risks as it imports over 50-60% of its raw material from countries such as China & Singapore because of cost advantages. Most of the transactions are not backed by LCs and the exposure is kept unhedged. The company



suffered exchange fluctuation costs of Rs 2 Crores in FY19, which led to a flat profit as compared to FY18 despite registering an increase in EBIDTA by ~ Rs 3 Crores.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

The rating of Avon Meters Pvt Ltd. is arrived at on a standalone basis after independent evaluation of its financial risk profile. For arriving at its ratings, BWR has applied its rating methodology as detailed in the rating criteria detailed below (hyperlinks provided at the end of this rationale)

RATING SENSITIVITIES

Positive: The rating may be upgraded if the ISCR improves over 3x, revenues cross Rs 300 Crs level, operating & net profit margins improve to 10% & 5% respectively besides the company maintaining the gearing level of 1x.

Negative: The rating may be downgraded if the ISCR deteriorates below 1.5x, the gearing increases above 1.5x, operating & net profit margins improve to 5% & 2% respectively and the company is not able to achieve the projected revenues.

LIQUIDITY POSITION (STRETCHED)

Stretched liquidity indicated by high receivables (178 days) & high payable days (167 days) coupled with modest cash balance of Rs 0.27 Crs in FY19 and higher utilisation of the bank limits (more than 90% on an average). However, in the absence of any large long term secured debt, the company's free cash flows are utilised to repay its interest charges (including interest on unsecured loans) depicting a comfortable debt repaying capacity of the company. The ISCR of the company stood at 2.07x in FY19. The company is not planning to incur any large debt funded capital expenditure in FY20.

COMPANY PROFILE

Avon Meters P Ltd (AMPL) was incorporated in June 1995 by Mr. Ram Niwas Gupta. It is engaged in the manufacturing of single phase and three-phase electronic meters. The manufacturing facility is located at Focal Point, Industrial Area, Derabassi (Punjab), having a total installed capacity of 40 Lakhs per annum (LPA) and 20 Lakhs per annum (LPA) of single-phase and three-phase electronic meters respectively as on 31 March 2018. The Company supplies meters to around 29 state electricity boards, electrical equipment manufacturers and some private entities in their own brand name "AVON" The Company procures orders mainly through participating in various tenders every year. Mr. Nikhil Goel (Director) looks after the overall operations of the Company.

KEY FINANCIAL INDICATORS

Key Parameters	Units	FY 19	FY 18
Result Type		Audited	Audited
Total Operating Income	₹ Cr	228.10	232.07
OPBDIT	₹ Cr	18.61	15.32
PAT	₹ Cr	8.75	8.03
Tangible Net Worth	₹ Cr	44.34	35.60
Total Debt/Tangible Net worth	Times	0.94	1.11
Current Ratio	Times	1.24	1.16

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY

NA

RATING HISTORY

Instrument/ Facilities	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	04 April 19*	16 Aug 2018**	2017
Fund Based Cash Credit	Long Term	30.00	BWR BBB (Pronounced as BWR Triple B) Stable (Reaffirmed)	BWR BBB (Pronounced as BWR Triple B) Stable	BWR BBB (Pronounced as BWR Triple B) Stable	NA
Non Fund Based BG		90.00				
Non Fund Based ILC/FLC BG	Short Term	25.00 -	BWR A3 (Pronounced as BWRA Three) (Reaffirmed)	BWR A3 (Pronounced as BWRA Three)	BWR A3 (Pronounced as BWRA Three)	

Total		145.00	INR One Hundred & Forty Five Crores Only
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*Rating provided for Rs 150 Crs of bank facilities

**Rating provided for Rs 110 Crs of bank facilities

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

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Avon Meters Pvt Ltd.

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Union Bank of India	Fund Based Cash Credit	25		25
		Non Fund Based BG/ILC/FLC	55	25	80
2	HDFC Bank	Fund Based Cash Credit	5		5
		Non Fund Based B.G.	15		15
3	Yes Bank	Non Fund Based B.G.	20		20



TOTAL	120	25	145
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Total Rupees One Hundred & Forty Five Crores only.

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