



Rating Rationale

Avon Steel Industries Pvt. Ltd.

06 Mar 2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹ 120.44 Crores of Avon Steel Industries Pvt Ltd.

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund Based Cash Credit Limit Term Loan	30.00 20.44	Long Term	BWR BBB+ (Pronounced as BWR Triple B Plus) Outlook: Stable
Non-fund Based ILC/FLC	70.00	Short Term	BWR A2+ (Pronounced as BWR A Two Plus)
Total	120.44	Rs. One Hundred Twenty Crores & Forty Four Lakhs Only	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

Ratings: Assigned long term rating BWR BBB+ (Outlook: Stable) and short term rating BWR A2+

Rationale/Rating Sensitivities:

BWR has principally relied upon the audited financial results of the Avon Steel Industries Pvt. Ltd. (ASIPPL or “the company”) up to FY18, projections for FY19 & FY20, publicly available information and information / clarifications provided by the company.

The Ratings derive comfort from long standing experience of the promoters in manufacturing of steel products, established relations with customers & suppliers because of long operational track record of the company and benefits derived from the company’s lineage of Avon group which enjoys strong brand visibility in cycle & steel manufacturing industries. The ratings are further strengthened by the comfortable financial risk profile of the company, its diversified product portfolio and semi-integrated operations within its coil manufacturing & steel tube manufacturing units giving advantages such as cost efficiency, optimisation of logistics & prospects of deriving higher operating margins from such integration in future.

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The ratings are, however, constrained by the susceptibility of company's margins to volatile raw material prices, its moderate profitability despite increase in scale of operations and favourable steel prices in the market during last two years and cyclical nature inherent in the steel industry.

Going forward, ability of the company to improve its profitability while also increasing its scale of operations along with maintaining the key financial metrics such as gearing, debt coverage ratios etc. shall remain the key rating sensitivities.

Key Rating Drivers:

Strengths:

- **Experienced management & strong brand recognition:** Managing Director of the company, Mr Chetan Pahwa, is a member of the family which owns the Avon brand. ASIPL sells its products under 'Avon' brand which enjoys high brand visibility in the northern India steel markets. Avon group is 65 year old and has business interests in manufacturing of bicycles, hot rolled (HR) coils, cold rolled coils, rickshaw and bicycle rims through various companies, of which ASIPL and Avon Rims Pvt Ltd. are owned by Mr Chetan Pahwa. He has experience of managing the family business for over 15 years. Both his companies, ASIPL & Avon Rims Pvt Ltd. enjoy certain level of operational synergies, however the scale of operations of Avon Rims is relatively smaller than ASIPL.
- **Comfortable Financial Risk Profile:** The company's total debt to tangible net worth ratio stood comfortable at 0.44x in FY18, while overall gearing (TOL/TNW) ratio remained comfortable at 1.52x. Debt protection metrics was moderate at 2.74x (ISCR) and 1.28x (DSCR). ASIPL's operating income increased by ~23% in FY18 on account of better sales realisation of steel tubes which registered the sales of Rs 282 Crs (FY18) as compared to Rs 166 Crs in FY17. The company is gradually increasing the share of revenues from steel tube manufacturing as it is a value added product made from HR coils. Around 40% of the HR coils produced by the company are used in manufacturing of steel tubes which provides certain benefits of forward integration to the company. In H1FY19 (provisional), the company has achieved an operating income of ~ Rs. 318 Cr. (~60% of the FY17's total revenues) with net profit of ~ Rs 3.12 Cr.
- **Diversified Product Profile:** ASIPL is engaged in the business of manufacturing of HR coils of varied thickness, width and different types of grades depending upon the requirements of the customer besides the manufacturing of steel tubes of different shapes and sizes which helps diversify the company's product profile.

Weakness:

- **Susceptibility to raw material fluctuations:** ASIPL procures majority of its raw material from Steel Authority of India Ltd (SAIL), prices of which are released every month. Raw material cost constitutes ~ 80% of the selling price of the finished products. Any adverse fluctuation in these prices increase the



susceptibility of margins of the company, as steel industry is competitive in nature and the market players enjoy only limited pricing powers for their products.

- **Moderate Profitability Margins & current ratio:** ASIPL's operating margins reduced from 6.22% in FY17 to 5.39% in FY18, while its net profit margins fell from 1.30% (FY17) to 0.98% (FY18) because of certain tax adjustments in FY18. Further, the current ratio in FY17 & FY18 remained weak at 1.04x & 1.05x respectively. However, the company is consistently investing in its plant & machinery for capacity enhancement & quality control from its cash accruals, thus leading to a temporary stress on its net working capital.

Analytical Approach

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).

Support from Group Companies:

The rating of ASIPL is arrived at on a standalone basis after independent evaluation of its financial risk profile.

Rating Outlook: Stable

BWR believes that ASIPL's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the company is able to improve its profitability margins while maintaining the capital structure. The rating outlook may be revised to 'Negative' if the projections are not met and there is any adverse movement in the risk profile of the company.

About the Company:

ASIPL (earlier known as Avon Ispat Limited) was incorporated in 1999 as public limited company. It was converted into private limited company on in 2008. Its registered office is located at Phase VIII, Focal Point, Chandigarh Road, Ludhiana-141010. ASIPL is engaged in the manufacturing of hot rolled coils and steel tubes at its plant in Ludhiana. Mr Chetan Pahwa, Managing Director of ASIPL also holds the directorship of Avon Rims Pvt Ltd. which manufactures rims for cycles.

Financial Performance:

ASIPL booked total operating income of Rs 536.24 Crores in FY18 as against Rs 436.67 Crores in FY17. PAT stood at Rs 5.27 Crores in FY18 as compared to Rs 5.68 Crores in FY17.

Parameters	Units	FY 2018(A)	FY 2017(A)
Total Operating Income	Rs in Cr	536.24	436.67
OPBDIT	Rs in Cr	28.89	27.17
PAT	Rs in Cr	5.27	5.68
Tangible Net Worth	Rs in Cr	96.40	91.13
Total Debt/TNW	Times	0.44	0.36
Current Ratio	Times	1.05	1.04

Rating History for the last three years:

Facility	Current Rating			Rating History		
	Amount (Rs. in Cr)	Tenure	Rating	2018	2017	2016
Fund Based Cash Credit Limit Term Loan	30.00 20.44	Long Term	BWR BBB+ (Pronounced as BWR Triple B Plus) Outlook: Stable	NA	NA	NA
Non-fund Based ILC/FLC	70.00	Short Term	BWR A2+ (Pronounced as BWR A Two Plus)			
Total	120.44	Rs. One Hundred Twenty Crores & Forty Four Lakhs Only				

Status of non-cooperation with previous CRA: NA

Any Other Information: None

Hyperlink/Reference to Applicable Criteria:

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



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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

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