

**Avon Meters Pvt Ltd.**

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹ 132 Crores of Avon Meters Pvt. Ltd.**

**Particulars:**

Facility**	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Sep 2019)	Present
<b>Fund Based Cash Credit Term Loan</b>	<b>30.00</b> -	<b>25.00</b> <b>2.00</b>	<b>Long Term</b>	<b>BWR BBB (Stable)</b>	<b>BWR BBB (Stable) (Reaffirmed)</b>
<b>Non Fund Based BG</b>	<b>90.00</b>	<b>90.00</b>			
<b>Non Fund Based ILC/FLC BG</b>	<b>25.00</b> -	<b>15.00</b> -	<b>Short Term</b>	<b>BWR A3</b>	<b>BWR A3 (Reaffirmed)</b>
<b>Total</b>	<b>145.00</b>	<b>132.00</b>	<b>Rupees One Hundred &amp; Thirty Two Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

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

**RATING ACTION / OUTLOOK:**

The reaffirmation in the ratings for the bank facilities of Avon Meters Pvt Ltd. (AMPL or the company) factors in its moderate financial risk profile indicated by its comfortable gearing, moderate net worth and comfortable debt coverage metrics. The ratings further derive strength from consistent improvement in margins of the company despite no growth in the topline for the past three years. The ratings also take account of the long operational track record of the company in successfully delivering over 30 mio electricity meters to various state-run power utilities in India. These strengths are partially offset by the limitations such as subdued performance in 5MFY21 due to Covid related disruptions, significant drop in the outstanding orders in hand and expectations of moderation in revenues and profitability by ~22% & over 50% in revenues and profitability, respectively in FY21.



## COVID IMPACT:

The company's operations have been impacted due to nationwide lockdown announced in March 2020. The company resumed operations with 1/3rd capacity in May 2020 and thereafter increased the level of operations in a phased manner, after complying with the directives of the local administration. Although the company did not avail any moratorium on interest servicing, it availed a Term Loan of Rs 2 Crs under the Emergency Credit Line Guarantee Scheme (ECLGS) to support the liquidity in the short term. The company continued to pay its installments on existing term loans from NBFCs & Financial Institutions during this period.

## 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:

- **Moderate Financial Risk Profile:** Total Debt/TNW & TOL/TNW ratio of the company stands comfortable at 0.83x & 1.66x in FY20 (Prov.) owing to low total debt. AMPL's operating profit margins improved from 8.16% (FY19) to 14.77% in FY20 (Prov.) due to higher contribution from semi-smart meters. The net profit margins also improved from 3.84% to 9.26%. Increase in profitability margins resulted in significant improvements in debt coverage metrics. While the ISCR improved from 2.07x to 4.36x, the DSCR increased from 2.14x to 3.59x in FY20 (Prov.). Further, there are no large debt funded capital expenditure plans of the company during FY21, which is expected to keep the gearing of the company in the 0.6x-0.8x range.
- **Experienced Management & diversified client profile:** AMPL was established by Mr RN Gupta in 1995. His long term experience at various levels in Haryana State Electricity Board and 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. The company has a low customer concentration risk as the clients are geographically diversified. The counterparty risk is also low as the exposure to private parties is very low and payments from state run companies are highly secured.
- **Brighter Prospects for Smart Meters:** With the aim of lowering the AT&C losses of discoms, the government has already announced an increase in budgetary allocations to

the power sector in the last union budget. AMPL, which has obtained the necessary quality certifications and licenses and qualifies in other parameters to be eligible for bidding in tenders for smart meters, is poised to benefit from this move as the entry barriers for pre-paid smart meters are high with only few players qualifying for the job. This will aid the topline and profitability of the company in the coming years. The company has already bid for more than 20 different projects worth Rs 368 Crores at present.

### **Credit Risks:**

- **Expected moderation in revenues and profitability in FY21:** Due to the disruptions related to COVID 19, the company could only achieve a gross revenue of Rs 31 Crs in 5MFY21. Further, the existing order book is Rs 78 Crs which provides revenue visibility for a short term only. However, the situation is expected to improve in H2FY21 as the company is expecting success in almost 30% of the projects it has already bid. Despite this, the company is projecting a decline of ~22% in FY21 revenues as the work slowed down across the supply chain since the beginning of the current financial year due to the pandemic. Also, the company had to incur the fixed operational costs during this period which is expected to affect the bottomline as the profitability may likely decrease by over 50% in FY21. However, the company's debt coverage metrics and liquidity profile is likely to be comfortable in the absence of any large term debt repayments.
- **High working capital requirements:** The company has availed non fund based facilities of Rs 105 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) to cover the warranty period of the meters installed by the company for its clients. Resultantly, the company has liened ~ Rs 16 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 are public sector entities which tend to stretch the suppliers for the payments. The company's receivable and payable days stood high at 191 & 139 days respectively in FY20, although it has recovered a substantial portion of the receivables as of July 2020.
- **Foreign Currency Fluctuation Risk:** The company is exposed to forex risk as it imports over 50-60% of its raw material from countries such as China and Singapore because of cost advantages. Most of the transactions are not backed by LCs and the exposure is kept unhedged.

## **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

The rating of AMPL 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 ratings may be upgraded if the company is able to register significant growth in revenues as a result of winning new projects & sustaining its existing profitability margins in the long run, besides the company maintaining the gearing level of ~1x, and other parameters favouring an upgrade.

**Negative:** The rating may be downgraded if the debt coverage metrics deteriorates below the projected levels i.e an ISCR of less than 2x and DSCR of less than 1.5x or there is larger than expected drop in the revenues and profitability in FY21.

### **LIQUIDITY POSITION: ADEQUATE**

Adequate liquidity due to availability of sufficient credit lines due to conservative utilisation of cash credit limits during the last seven months. The company has minuscule debt repayment obligations of Rs 0.20 Crs in FY21 against the expected cash accruals of Rs 11-12 Crs as per company's projections. The liquidity is also supported by the unsecured loans of ~ Rs 23 Crs aiding the capital structure of the company. The current ratio stood comfortable at 1.59x, while the debt coverage metrics, i.e ISCR & DSCR also remained robust at 4.36x & 3.59x respectively in FY20 (Prov.). The company does not have any plans for undergoing a large debt funded CAPEX in FY21.

### **COMPANY PROFILE**

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 LPA of single-phase and three-phase electronic meters, respectively as on 31 March 2020. The company supplies meters to various state electricity boards, electrical equipment manufacturers and some private entities under their own brand name "AVON". The company procures orders through participating in various tenders floated by power utilities during the year. Mr. Nikhil Goel (Director) looks after the overall operations of the Company.

### KEY FINANCIAL INDICATORS

Key Parameters	Units	FY 18	FY 19	FY 20
Result Type		Audited	Audited	Provisional
Total Operating Income	₹ Cr	232.07	228.10	222.86
OPBDITA	₹ Cr	15.32	18.61	32.91
PAT	₹ Cr	8.03	8.75	20.63
Tangible Net Worth(TNW)	₹ Cr	35.60	44.34	64.90
Total Debt/TNW	Times	1.11	0.94	0.83
Current Ratio	Times	1.16	1.24	1.59

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA**

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA**

**RATING HISTORY FOR LAST THREE YEARS (INCLUDING WITHDRAWN/SUSPENDED)**

Facility/ Instrument	Current Rating				Rating History (Amounts in Rs Crs)								
	10 Aug 2020				17 Sep 2019			04 Apr 2019			16 Aug 2018		
	Type	Facility	Amount	Rating	Facility	Amount	Rating	Facility	Amount	Rating	Facility	Amount	Rating
Bank Loan Rating	Long Term	FB	27	BWR BBB/ Stable	FB	30	BWR BBB/ Stable	FB	35	BWR BBB/ Stable	FB	35	BWR BBB/ Stable
	Long Term	NFB	90	BWR BBB/ Stable	NFB	90	BWR BBB/ Stable	NFB	90	BWR BBB/ Stable	NFB	90	BWR BBB/ Stable
	Short Term	NFB	15	BWR A3	NFB	25	BWR A3	NFB	25	BWR A3	NFB	25	BWR A3

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

**Hyperlink/Reference to applicable Criteria**

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**

<b>Analytical Contacts</b>	<b>Investor and Media Relations</b>
<p><b>Sumit Saharan</b> <b>Rating Analyst</b> Board: +91-172-5032295 Ext: 104 [sumit.s@brickworkratings.com]</p> <p><b>Ashwini Mital</b> <b>[Director – Ratings]</b> Board: +91-172-5032295 Ext: 102 [ashwini.m@brickworkratings.com]</p>	<p><b>Liena Thakur</b> <b>Assistant Vice President-Corporate Communications</b> M : +91 7738875550 B : +91 22 6745 6666 liena.t@brickworkratings.com</p>

**Avon Meters Pvt Ltd.**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

<b>Sl. No.</b>	<b>Name of the Bank</b>	<b>Type of Facilities</b>	<b>Long Term (₹ Cr)</b>	<b>Short Term (₹ Cr)</b>	<b>Total (₹ Cr)</b>
<b>1</b>	<b>Union Bank of India</b>	<b>Fund Based Cash Credit</b>	<b>20</b>	<b>-</b>	<b>20</b>
		<b>Non Fund Based BG/ILC/FLC</b>	<b>55</b>	<b>15</b>	<b>70</b>
		<b>Term Loan (Covid Emergency Line)</b>	<b>2</b>	<b>-</b>	<b>2</b>

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
		Fund Based CC- Sub limit of BG	(1.00)	-	(1.00)
TOTAL			117	15	132

**Total Rupees One Hundred & Thirty Two Crores only.**

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