



## Rating Rationale

Avtar Steel Ltd.

23 March 2021

**Brickwork Ratings reaffirms ratings for the Bank Loan Facilities of Rs 53.93 Crs of Avtar Steel Ltd.**

### Particulars

Facility**	Amount (Rs in Crs)		Tenure	Rating*	
	Previous	Present		Previous (30 Dec, 2019)	Present
<b>Fund Based</b>	50.43	<b>50.96</b>	<b>Long Term</b>	BWR BBB-(Stable) (Assigned)	<b>BWR BBB-(Stable) (Reaffirmation)</b>
<b>Non Fund Based</b>	2.97	<b>2.97</b>	<b>Short Term</b>	BWR A3 (Assigned)	<b>BWR A3 (Reaffirmation)</b>
<b>Total</b>	53.40	<b>53.93</b>	<b>INR Fifty Three Crores and Ninety Three Lakh Only</b>		

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

\*\* Details of bank facilities are mentioned in Annexure-I.

### RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) reaffirms the long-term rating at BWR BBB-(Stable) and short-term rating at A3 for the bank loan facilities of Avtar Steel Ltd. (ASL or the company).

The rating reaffirmation factors in the experienced management and established operational track record, moderate scale of operations, comfortable leverage position, current ratio, debt protections metrics, conversion cycle and current ratio. However, the ratings are constrained by low profit margins, raw material fluctuation risk and competition, besides foreign currency fluctuation risk.

The outlook is stable as the company registered reasonable revenue of Rs 383.24 Crs in 11MFY21, despite the Covid-19 induced lockdown effect on the initial month sales of this fiscal year (FY21).

### KEY RATING DRIVERS

BWR has principally relied on audited financials upto FY20, projections upto FY23, publicly available information and information/clarification provided by the management.

### Credit Strengths :

- **Experienced management and established operational track record:** The company has a good track record of operations. Key directors of the company, Mr. Bir Bhan Jindal have more than 3 decades of experience and Mr. Sumit Jindal have more than a decade of experience in the same line of business.
- **Reasonable scale of operations and order book position:** The company's total operating income declined from Rs 587.53 Crs in FY19 to Rs 465.77 Crs in FY20 but still good scale of operations. The decline in revenue is mainly due to low price realization and Covid-19 effect in the last quarter mainly which resulted in decline in revenue in FY20. The company registered revenue of Rs 383.24 Crs in 11MFY21 and the company has order book of Rs 90.41 Crs as of February 2021 which provides the revenue visibility in the short term.
- **Comfortable leverage position, current ratio :** Company's gearing (Total debt/TNW) is comfortable at 1.36x (1.17x in FY19) in FY20 owing to good net worth of Rs 41.58 Crs as compared to the total debt in FY20 and current ratio is comfortable at 1.21x in FY20 (1.17x in FY19).
- **Comfortable debt protection metrics:** ASL's ability to meet its interest and current portion of long term debt (CPLTD) obligation, indicates from comfortable interest service coverage ratio (ISCR) of 2.24x (2.57x in FY19) and debt service coverage ratio( DSCR) of 1.54x (1.68x in FY19) in FY20.
- **Efficient conversion cycle:** The operating cycle of the company is comfortable at 32 days (22 days in FY19) in FY20 owing to a good debtor realization period of only 37 days only in FY20.

### Credit Risks :

- **Low profit margins:** The company has low profit margins i.e net profit margins are low at 0.89% (0.96% in FY19) in FY20 and operating profit margins are at 2.49% (2.61% in FY19) in FY20.
- **Raw material fluctuation risk and competition:** The company is susceptible to price raw material fluctuation risk. The major raw material includes scraps, ferrous alloy and base metals the prices of these are volatile, depending on the demand-supply situation. Any increase in the price, if not passed through, may adversely affect the firm's profit margins, besides competition from peers may further affect profit margins.
- **Foreign currency fluctuation risk:** The company had an import of approx 35.80% as compared to exports of 4.59% only in FY20. Any negative deviation in foreign currency may impact the cost of raw material which will result in high operating expenses and low profitability. Currently the company has no hedging policy to mitigate the same, besides natural hedging to an extent (company had import of 9.43% against export of 8.96%



export in 9 months of FY21).

### **ANALYTICAL APPROACH**

BWR has factored in the standalone business parameters and financial risk profile of the trust to arrive at the rating. Reference may be made to the detailed Rating Criteria hyperlinked below (hyperlinks provided at the end of this rationale).

### **RATING SENSITIVITIES**

**Upward :** The outlook may be revised to positive or the rating may be upgraded if there is reasonable improvement in the scale of operations and improvement in profit margins, besides financial risk profile continuing to be healthy.

**Downward :** BWR may revise the ratings downwards if the company achieves notably lower revenue than expected and deterioration in debt protection metrics and liquidity.

### **LIQUIDITY POSITION (Adequate) :**

The company had cash accrual of Rs 6.84 Crs at the end of March,2020 against the current portion of long term debt (CPLTD) of Rs 2.61 Crs in FY20. BWR is expecting cash accruals of approximately Rs 6 Crs against CPLTD of Rs 2.70 Crs for FY21. It had cash and cash equivalents of Rs 1.24 Crs at the end of 31st March,2020. Average utilization for the fund based limit is 70%-80%. The company has no expansion plan in the near term.

### **ABOUT THE COMPANY**

Avtar Steel Ltd., was incorporated in May 1996, having registered office at Pitampura, New Delhi. The company has a manufacturing facility in Sonapat, Haryana and engaged in manufacturing Stainless Steel products viz bright round bars, round cornered square bars, ingots, Flats, rolled billets, square & Hex Bar etc. It is an ISO 9001 : 2008 certified company. Key Directors of the company are Mr. Bir Bhan Jindal and Mr. Sumit Jindal.

### **KEY FINANCIAL INDICATORS**

<b>Key Parameters</b>	<b>Units</b>	<b>FY19</b>	<b>FY20</b>
<b>Result Type</b>		<b>Audited</b>	<b>Audited</b>
<b>Total Operating Income</b>	<b>Rs.in Crs</b>	<b>587.53</b>	<b>465.77</b>
<b>OPBDIT</b>	<b>Rs.in Crs</b>	<b>15.35</b>	<b>11.60</b>
<b>PAT</b>	<b>Rs.in Crs</b>	<b>5.67</b>	<b>4.15</b>
<b>Tangible Net Worth (TNW)</b>	<b>Rs.in Crs</b>	<b>34.93</b>	<b>41.58</b>
<b>Total Debt/TNW</b>	<b>Times</b>	<b>1.17</b>	<b>1.36</b>
<b>Current Ratio</b>	<b>Times</b>	<b>1.17</b>	<b>1.21</b>

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

**NON-COOPERATION WITH PREVIOUS RATING AGENCY:** CARE moved the rating to Issuer Non Cooperation on 09,Sep 2020.

**RATING HISTORY FOR THE LAST 3 YEARS (INCLUDING WITHDRAWN/SUSPENDED)**

Facilities Available	Current Rating (2021)			(Amount in (Rs.Crs))		
	Tenure	Amount (In Crs)	Rating	2020^	30-Dec-2019	2018
Bank Loan Fund Based (FB)	Long Term	50.96	BWR BBB- (Stable) (Reaffirmation)	-	BWR BBB- (Stable) (Assigned)	-
Bank Loan Non Fund Based (NFB)	Short Term	2.97	BWR A3 (Reaffirmation)	-	BWR A3 (Assigned)	-
Total		53.93	INR Fifty Three Crores and Ninety Three Lakh Only			

^Rating was moved to RNR on 31-Dec-2020

**COMPLEXITY LEVELS OF THE INSTRUMENTS (Simple)**

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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**Avtar Steel Ltd**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

<b>S. No.</b>	<b>Type of Facilities</b>	<b>Long Term (₹ Cr)</b>	<b>Short Term (₹ Cr)</b>	<b>Total (₹ Cr)</b>
1.	Cash Credit	48.50	-	48.50
2.	Term Loan	0.36	-	0.36
3.	LC	-	2.97	2.97
4.	Demand Loan (CECL)	2.10	-	2.10
<b>TOTAL</b>				<b>53.93</b>

**Total Rupees Fifty Three Crores and Ninety Three Lakh Only**

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