RATING RATIONALE

30 Dec 2019

Avtar Steel Ltd.

Brickwork Ratings assigns the ratings for the Bank Loan Facility of ₹ 53.40 Cr of Avtar Steel Ltd.

Particulars :

Facility**	Limits (₹ Crs)	Tenure	Rating*
Fund based	50.43	Long Term	BWR BBB- (Stable)
Non Fund Based	2.97	Short Term	BWR A3
Total	53.40	INR Fifty Three Crores and Forty Lakh Only	

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

RATING ACTION / OUTLOOK

Brickwork rating assigns the rating at BWR BBB- for the long term with Stable Outlook and BWR A3 for the short term.

The rating draws strength from the experienced promoters, improved Topline and Bottomline, comfortable leverage,debt protection metrics and conversion cycle in FY19.

The Outlook is 'Stable' as the company is able to improve its Total Operating Income for the last two years.

KEY RATING DRIVERS

BWR principally relied upon audited financials upto FY19, H1FY20 and projections upto FY21,publicly available information and information/clarification provided by the management.

Credit Strengths :

- **Experienced Promoters** : Mr. Bir Bhan Jindal has more than 3 decades of experience and Mr. Sumit Jindal has more than a decade of experience in the business.

- **Improved Topline and Bottomline :** The company topline is growing over the years. Total operating income(TOI) has improved from Rs 421.36 Cr in FY18 to Rs 587.53 Cr in FY19 and PAT has improved from Rs 3.77 Cr in FY18 to Rs 5.67 Cr in FY19.As advised, company have achieved turnover of Rs Rs 334.20 Cr in 8MFY20.

- **Leverage position** : Gearing(Total debt/TNW) of the company is comfortable and has improved from 2X in FY18 to 1.17X in FY19 due to infusion of equity of Rs 7.90 Cr in FY19.

- **Debt protection Metrics:** Company has moderate debt protection metrics, having ISCR and DSCR of 2.57X and 1.68X respectively in FY19.

- **Efficient conversion cycle :** Operating cycle of the company is comfortable and has improved from 31 days in FY18 to 22 days in FY19 only.

Credit Concerns :

- **Profit margins :** ASL has low profit margins i.e. 0.96% of net profit margin and 2.61% of operating profit margin in FY19 due to stiff competition.

- **Raw Material Fluctuation Risk and Competition** : The company is susceptible to price raw material fluctuation risk. Any increase in the raw material prices may affect the profit margins.Also competition from the peers could affect the profitability of the company.

- **Foreign currency fluctuation risk:** The company had an import of approx 32% as compared to 17% only in FY18. It has 46% of imports in the first 6 months of FY20. Any negative fluctuation in foreign currency may impact the cost of raw material which will result in high operating expenses and low profitability.Currently company has no hedging policy to mitigate the same.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

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

RATING SENSITIVITIES

Going forward, the company's ability to achieve its projections and sustain the growth would be key sensitivities over short to medium term.

Positive: The rating outlook may be revised to positive and the rating may be upgraded if there is improvement in profit margins and sustain its growth and comfortable margins.

Negative: The rating may be downgraded if the company achieves lower revenue than projected financials and not able to maintain the financials in the future.

LIQUIDITY POSITION (Adequate)

The liquidity of the company is supported by improved cash accruals(PAT+Dep) of Rs 8.20 Cr in FY19 against CPLTD of Rs 2.47 Cr which needed to be repaid in FY19. It has Cash and Cash Equivalents of Rs 0.61 Cr at the end of 31st March,2019.Currently company has no expansion plan. The company's current ratio has improved from 1.09X in FY18 to 1.17X in FY19. However limits utilization is over 95%.

COMPANY PROFILE

Avtar Steel Ltd., was incorporated in May 1996,having registered office at Pitampura, New Delhi. The company has a manufacturing facility in Sonepat, 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

Key Parameters	Units	FY18(A)	FY19(A)
Result Type		**Audited**	**Audited**
Total Operating Income	**Crs**	**421.36**	**587.53**

OPBDIT	**Crs**	**11.12**	**15.35**
PAT	**Crs**	**3.77**	**5.67**
Tangible Net Worth	**Crs**	**20.43**	**34.93**
Total Debt/TNW	**Times**	**2.00**	**1.17**
Current Ratio	**Times**	**1.09**	**1.17**

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY: NA

RATING HISTORY

Instrument / Facilities	**Current Rating (Dec 2019)**			**Rating History**		
	Tenure	Amount (₹ Cr)	Rating	2018	2017	2016
Fund Based	Long Term	50.43	BWR BBB- (Stable)	NA	NA	NA
Non Fund Based	Short Term	2.97	BWR A3			
Total		53.40	INR Fifty Three Crores and Forty Lakh Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

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

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**
- **Short Term Debt**

Analytical Contacts	Investor and Media Relations
Raman Thakur **Rating Analyst** Phone:011-23412232 raman.t@brickworkratings.com **RK Sharma** **Senior Director - Ratings** Phone:011-23412232 rksharma@brickworkratings.com	Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com

Avtar Steel Ltd.

ANNEXURE I

Details of Bank Facilities rated by BWR

S. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1.	OBC	CC Term Loan LC	21.00 1.93 -	- - 2.97	21.00 1.93 2.97
2	HDFC	CC	27.50	-	27.50
		TOTAL			**53.40**

Total INR Fifty Three Crores and Forty Lakh Only

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