

## RATING RATIONALE

23 Mar 2020

Avon Steel Industries Pvt. Ltd.

**Brickwork Ratings downgrades the ratings for the Bank Loan Facilities of Rs 143.14 Crores of Avon Steel Industries Pvt. Ltd.**

### Particulars

Facility/ Instrument**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Mar 19)	Present
<b>Fund Based</b>					
<b>Cash Credit</b>	30.00	30.00	Long	<b>BWR BBB+</b> (Stable)	<b>BWR BBB</b> (Stable) <b>Downgrade</b>
<b>Term Loan</b>	20.44	13.14	Term		
<b>PO Financing</b>	-	55.00			
<b>Non-fund Based</b>					
<b>ILC</b>	70.00	45.00	Short	<b>BWR A2+</b>	<b>BWR A2</b> <b>Downgrade</b>
<b>Total</b>	120.44	143.14	INR One hundred Forty Three Crores & Fourteen Lakhs Only		

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

\*\* Details of Bank facilities/NCD/Bonds/Commercial Paper is provided in Annexure-I&II

### RATING ACTION / OUTLOOK

The ratings of Avon Steel Industries Pvt. Ltd (ASIPL or ‘the company’) are downgraded in the purview of deterioration in its financial risk profile depicted by a decline in its debt coverage metrics, profitability margins and skewed current ratio in FY19. BWR expects the company’s margins to remain under pressure in FY20, while it tries to aggressively penetrate the market in the midst of volatile raw material prices and continuously falling prices of the finished steel products. However, the company’s long operational track record, promoter’s experience of over two decades in the same line of business and no future plans of incremental long term debt, in the short to medium term, will continue to offset the risks outlined above. Further, the company’s lineage to Avon group, which enjoys a strong brand visibility in the cycle & steel manufacturing industry, will continue to support the ratings.

### OUTLOOK: STABLE

BWR believes that the business risk profile of ASIPL will be maintained over the medium term. The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. The outlook may be revised to positive in case the revenues and profitability margins show a sustained improvement. It may

be revised to negative if the revenues go down and profitability margins show lower than expected figures.

## KEY RATING DRIVERS

### Credit Strengths:

- **Experienced management & strong brand recognition:** MD of the company, Mr Chetan Pahwa, is a member of the family owning the 65 year old 'Avon' brand. Avon group has business interests in manufacturing 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. ASIPL sells its products under this brand which has wide acceptance in the north Indian market for its products. Mr. Pahwa has experience of managing the family business for over 20 years.
- **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 also manufacturing steel tubes of different shapes and sizes which helps diversify the company's product profile. Around 40% of the HR coils produced by the company are used in manufacturing of steel tubes providing the benefits of cost optimization through this forward integration. The company is aggressively expanding its presence in the steel tubes market as the revenues from this segment increased from Rs 282 Crs (FY18) to Rs 347 Crs (FY19). The company's total revenues increased by ~19% in FY19. However, it is expected to decline by ~10% in FY20 (estimated) as the prices are headed south in the current year despite the company increasing its production by ~5% in 9MFY20 vis-a-vis the same period in FY19.

### Credit Weakness:

- **Deterioration in credit risk profile:** The Company's ISCR & DSCR stood poor at 1.34x & 0.94x respectively in FY19 as the EBITDA declined to Rs 16.03 Crores & there was a net loss of Rs 4.59 Crores. The company's cash accruals (PAT+Depr.) of Rs 6.44 Crs in FY19 remained insufficient to service the maturing debt of Rs 7.64 Crores. Further, the company increased its reliance on bill discounting facilities to fund its working capital needs taking its overall gearing (TOL/TNW ratio) to 1.84x from previous year's 1.53x. The current ratio also slipped to 0.97x as the company did not raise new long term loans to fund its CAPEX in the past two years as also the internal accruals remained insufficient to meet such needs.
- **Susceptibility to raw material fluctuations:** ASIPL procures majority of its raw material from Steel Authority of India Ltd (SAIL) & Tata Steel, prices of which are released every month. Raw material cost constitutes ~ 84% of the selling price of the finished products for the company. Any adverse fluctuation in these prices is likely to increase the susceptibility of its margins; as also seen in the losses incurred in FY19. Moreover, the steel industry is competitive in nature and the market players enjoy only limited pricing powers for their products.

## ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA



The ratings of Avon Steel Industries Pvt. Ltd. are 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 restore its operating & net margins to over 5% & 1% respectively while also limiting the overall debt exposure to the current levels, besides consideration of other factors favouring an upgrade.

**Negative:** The ratings may be downgraded if the company's losses escalate further or there is any instance indicating liquidity problems. The ratings may also be downgraded if the company takes on large debt funded exposure as the existing internal cash accruals are not reassuring.

### LIQUIDITY POSITION

Stretched liquidity indicated by tightly matched projected cash accruals (PAT+Depr.) of Rs 8.14Crs against the maturing debt of Rs 5.84 Crs in FY20. Further, the company's current ratio stood poor at 0.97x in FY19 and is expected to be just over 1.0x in FY20. The company also does not have enough cash & cash equivalents or current investments, however it does have sufficient headroom to use its unutilized bank limits in meeting any short term liquidity needs.

### COMPANY PROFILE

ASIPL (earlier known as Avon Ispat Limited) was incorporated in 1999 as a public limited company. It was converted into a private limited company 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.

### KEY FINANCIAL INDICATORS

Key Parameters	Units	FY 19	FY 18
Result Type		Audited	Audited
Total Operating Income	Rs.Cr	639.66	536.24
OPBDIT	Rs.Cr	16.03	28.89
PAT	Rs.Cr	(4.59)	5.27
Tangible Net Worth	Rs.Cr	91.48	95.89
Total Debt/Tangible Net worth	Times	0.39	0.44
TOL/TNW	Times	1.84	1.53
Current Ratio	Times	0.98	1.05

### KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NONE



**NON-COOPERATION WITH PREVIOUS RATING AGENCY, IF ANY :** CARE, vide its rationale dated 26 Mar 2019, placed the rating of ASIPL under ‘Issuer Not Cooperating Category’ while assigning a rating of CARE BBB+/A2 as per information available.

**RATING HISTORY (INCLUDES RATINGS WITHDRAWN/SUSPENDED)**

Instrument/Facility	Current Rating (2020)				Rating History				
	21 Mar 20				06 Mar 19			2018	2017
<b>Bank Loan</b>	Facilities	Type	Amount	Rating	Facilities	Amount	Rating	NA	NA
	FB	Long Term	98.14	BWR BBB Stable	FB	50.44	BWR BBB+ Stable		
	NFB	Short Term	45.00	BWR A2	NFB	70.00	BWR A2+		

**COMPLEXITY LEVELS OF THE INSTRUMENTS**

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](#)

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**Avon Steel Industries Pvt. Ltd.**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs.Cr)	Short Term (Rs.Cr)	Total (Rs.Cr)
1	Allahabad Bank	CC	20.00	-	20.00
2		ILC	-	45.00	45.00
3	HDFC Bank	CC	10.00	-	10.00
4		PO Financing	55.00	-	55.00
5		Term Loan	13.14	-	13.14
<b>Total</b>			<b>98.14</b>	<b>45.00</b>	<b>143.14</b>

**Total Rupees One Hundred Forty Three Crores & Fourteen Lakhs only.**

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