Rating Advisory

March 28, 2020I Mumbai

Advisory as on March 28, 2020

This rating advisory is provided in relation to the rating of Avalon Cosmetics Private Limited.

CRISIL vide its publication dated March 03, 2020 highlighted the aspect of non-co-operation by Avalon Cosmetics Private Limited.

Avalon Cosmetics Private Limited has now shared the information requested and is cooperative.

You may access the Rating Rationale as appended below.

Rating Rationale

December 31, 2018 | Mumbai

Avalon Cosmetics Private Limited

Rating upgraded to 'CRISIL BBB+/Stable'

Rating Action

Total Bank Loan Facilities Rated	**Rs.100 Crore**
Long Term Rating	**CRISIL BBB+/Stable (Upgraded from 'CRISIL BBB/Stable')**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has upgraded its long term rating on the bank facilities of Avalon Cosmetics Private Limited (ACPL; part of the Avalon group) to **'CRISIL BBB+/Stable'** from 'CRISIL BBB/Stable'.

The upgrade reflects expectation of sustained improvement in the financial risk profile supported by enhanced scale of operations, increase in profitability, improved net cash accruals and consequent improvement in capital structure.

The revenue exhibited a growth of around 30% from Rs. 343 crores in Fiscal 2017 to around Rs. 457 crores in Fiscal 2018 supported by full year of operation of newly set up Kala Amb plant resulting in increase in net cash accruals to Rs.22 crores in fiscal 2018 as against Rs. 18 crores in fiscal 2017, resulting in improvement in return on capital employed from 12.2% in Fiscal 2017 to 15.6% in Fiscal 2018. CRISIL expects the profitability and capital structure to improve further over the medium term.

The rating reflects the Avalon group's established customer relationships marked by its long term contracts with large FMCG players, supported by the promoters' extensive experience in the contract manufacturing industry and above average financial risk profile. These rating strengths are partially offset by concentration of the groups' revenue from few customers and capital intensive nature of operations.

Analytical Approach

For arriving at the rating, CRISIL has considered the consolidated financials of ACPL and partnership firms in which it is a partner i.e Athene Laboratories (AL) and Shivom Industries (SI), together referred to as the Avalon group. This is because these three entities are in similar lines of business and under a common promoter group, and have significant business linkages with each other.

Please refer Annexure - Details of consolidation, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths

* **Established customer relationships with large FMCG players, supported by the promoters' extensive industry experience:**

The group's business risk profile is supported by established relationship along with presence of long term contracts with commitment clause and multiple product lines with its major customers which are large FMCG players such as Hindustan Unilever Limited, GlaxoSmithKline Plc, Reckitt Benckiser Group Plc, etc. Significant part of the group's revenue is from long term contracts with these FMCG players. The business risk profile is also supported by promoters' over two decades of experience in the contract manufacturing business. Further, the group's management also has professionals with extensive experience.

*** Above average financial risk profile**

Group's networth has been moderate at around Rs 57.82 crore as on March 31, 2018, with moderately high total outside liabilities to adjusted net worth ratio of 3.30 time. Debt protection metrics has been comfortable marked by interest coverage and net cash accrual to adjusted debt ratios were 4.25 times and 0.27 time, respectively, in fiscal 2018. The risk of a leveraged capital structure is largely mitigated by assured revenue from its customers to support the interest and principal repayments. Financial risk profile is expected to improve over the medium term on back of improved cash accruals, term debt repayments and no significant debt funded capital expenditure over the medium term.

Weakness:

*** Concentration of the groups revenue from few customers:**

Group's revenue are concentrated with significant dependence from few customers due the nature of the business. Top 3 customers contribute to around 90% of the group's revenue. Significant portion of Avalon group's business is generated under captive unit model wherein the entire manufacturing is undertaken for single customer and accordingly revenue are susceptible to timely contract renewal by these customers. The revenue concentration risk is partially mitigated due to long term relationship with these clients, presence of long term contracts with commitment clause and multiple product lines.

*** Capital intensive nature of operations**

The group operations are capital intensive due to its requirement for setting up of dedicated manufacturing facilities for FMCG players upfront. As the capex is partly funded through debt it results in high TOL to TNW when new facility is being set up (TOL to TNW stood at 3.31 times as on March 31, 2018). Any significant, debt fund capital expenditure not backed by a long term contract, would be a key rating sensitivity.

Outlook: Stable

CRISIL believes that the Avalon group will continue to benefit over the medium term from its established relationship with customers and promoters' extensive industry experience. The outlook may be revised to 'Positive' if the group registers substantial growth in its revenue and profitability margins or if the group's capital structure improves significantly mostly on account of equity infusion or repayment of term loans. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the group's business or financial risk profile on account of lower than expected improvement in profitability and accruals, or lower than expected improvement in capital structure on account of larger-than-expected debt-funded capital expenditure or stretch in working capital requirements.

Liquidity: Moderate

Avalon group has moderate liquidity driven by expected cash accruals in the range of Rs. 28 crore to Rs. 32 crores, per annum in fiscal 2019 and fiscal 2020 and cash and cash equivalents of Rs.9.65 crore as on March 31, 2018. Avalon group also has access to bank limits of Rs. 8.5 crore, utilized to the tune of 31% on an average over the 12 months ended October, 2018. The company has long term repayment obligations in the range of Rs.19 crores to Rs.23 crores each in fiscal 2019 and fiscal 2020. CRISIL expects internal accruals, cash & cash equivalents and unutilized existing bank lines to be sufficient to meet its term debt repayment, planned capital expenditure and incremental working capital requirements.

About the Company

The Avalon group is more than three decades old. The group is one of the leading setups in India extending contract and third-party manufacturing services to its clients. The group has set up manufacturing infrastructure, spread over seven locations and 12 sites across India. It offers captive / contract manufacturing services for both domestic and overseas partners in the areas of personal care, home care, fabric care and processed foods.

ACPL is the flagship company of the group and is engaged in manufacture of food, cosmetics, and home-care products. The group's manufacturing units are located at Hyderabad, Coimbatore, Nashik (Maharashtra), and Kala Amb (Himachal Pradesh).

AL is a partnership firm engaged in vanilla contract manufacturing for a range of FMCG products and has a capacity to manufacture talcum powder, body lotion, creams, and hand wash.

SI is a partnership firm, engaged in manufacture of 'fairness creams', 'body lotions' and 'hand wash'.

Key Financial Indicators

Particulars	Unit	2018	2017
Revenue	Rs crore	456.65	343.94
Profit after tax (PAT)	Rs crore	11.95	6.31
PAT margin	%	2.6	1.8
Adjusted debt/adjusted networth	Times	1.43	1.88
Interest coverage	Times	4.25	3.06

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs cr.)	Rating Assigr Outlool
NA	Cash Credit	NA	NA	NA	8.50	CRISIL A-/S
NA	Term Loan	NA	NA	Sep-2024	35.25	CRISIL A-/S
NA	Proposed Long-Term Bank Loan Facility	NA	NA	NA	56.25	CRISIL A-/S

Annexure - Details of Consolidation

Fully consolidated entities
Athene Laboratories and Shivom Industries

Annexure - Rating History for last 3 Years

	Current	2018 (History)	2017	2016	2015

Ratings

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Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based Bank Facilities	LT/ST	100.00	CRISIL BBB+/Stable			29-09-17	CRISIL BBB/Stable	13-06-16	CRISIL BBB/Stable	05-08-15	CRISIL BBB-/Stable

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previ us facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	
Cash Credit	**8.5**	**CRISIL BBB+/Stable**	**Cash Credit**	**8.5**	**BBB**
Proposed Fund-Based Bank Limits	**56.25**	**CRISIL BBB+/Stable**	**Term Loan**	**91.5**	**BBB**
Term Loan	**35.25**	**CRISIL BBB+/Stable**	**--**	**0**	
Total	**100**	**--**	**Total**	**100**	

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Links to related criteria
[CRISILs Approach to Financial Ratios]()
[CRISILs Bank Loan Ratings - process, scale and default recognition]()
[Rating criteria for manufaturing and service sector companies]()
[Rating Criteria for Fast Moving Consumer Goods Industry]()
[CRISILs Criteria for Consolidation]()

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