July 27, 2021

Ashirvad Pipes Private Limited: [ICRA]AA(Stable)/[ICRA]A1+; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term / Short Term - Fund based/Non Fund Based	540.00	[ICRA]AA(Stable)/[ICRA]A1+; assigned
Total	**540.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings assigned for the bank facilities of Ashirvad Pipes Private Limited (APPL) factor in its established market position and strong brand presence in the domestic CPVC[1], UPVC pipes and fitting industry, supported by its expansive product profile and a wide distribution network. The ratings also derive support from APPL's strong financial profile, characterised by healthy operating margins, sizeable cash reserves and limited dependence on debt. ICRA expects the company's healthy performance to sustain going forward driven by the strong growth potential of the company's products and geographical diversification plans to expand its reach to untapped markets. The ratings further factor in the operational and managerial support enjoyed by APPL as it is a part of the Aliaxis Group, which is an established global player in advanced piping systems.

The ratings, however, are constrained by the intense competition in the domestic PVC pipes segment from both organised and unorganised segments. The ratings are further tempered by the vulnerability of APPL's profitability to variation in raw material prices and foreign currency fluctuation risk on imported raw materials. ICRA, however, notes that the company has been able to pass on any major fluctuation in raw material prices to its customers and has maintained healthy margins over the years.

The ratings further take into consideration the geographical concentration risk with the top three states accounting for 45% of its revenue in FY2021. Additionally, APPL is exposed to supplier concentration risk with high dependence on a single supplier, Lubrizol Advanced Material India Pvt. Ltd. (Lubrizol), for the raw materials of its CPVC products, which account for ~60% of its revenue. However, association with Lubrizol at the Aliaxis Group level mitigates the risk to a certain extent.

The Stable outlook on the long-term rating reflects ICRA's opinion that APPL will continue to maintain its strong credit profile owing to the favourable demand outlook of its products, strong financial profile, along with the operational and managerial support from the Aliaxis Group.

Key rating drivers and their description

Credit strengths

Established market position and strong brand presence – APPL has an established track record of more than two decades along with a strong market position and brand presence in the domestic pipe and fittings industry, backed by its widespread distribution network and ability to introduce new products. Over the years, APPL has diversified its product portfolio through addition of UPVC, CPVC, soil, waste, and rainwater (SWR), High Density Polyethylene (HDPE) pipes and fittings, water tanks and a host of other products used across various applications in different market segments like building (plumbing), agriculture, industrial and infrastructure. APPL primarily operates on a distributor-dealer network model with its widespread network of

[1] CPVC- Chlorinated Polyvinyl Chloride, UPVC - Unplasticized Polyvinyl Chloride

1,500+ distributors and 60,000+ retail partners. Going forward, the company plans to emerge as a comprehensive water management solution provider.

Robust financial profile – APPL's financial profile has been robust, characterised by healthy operating margins, conservative capital structure, nil long-term debt and sizeable cash, bank balances and liquid investments. Moreover, APPL's coverage indicators remained comfortable as reflected by an interest coverage of 94.8 times, Total Debt/OPBITDA of 0.1 times and NCA/Total Debt of 776.7% in FY2021. Further, APPL's operating income (OI) witnessed a steady rise at a CAGR of 17% over the past five years. The OI increased to Rs. 3,503.2 crore in FY2021 from Rs. 1,614.1 crore in FY2016 mainly due to healthy demand, deeper penetration in the market and expansion of geographical reach as it had set up new capacities in North India.

Despite the proposed capex of Rs. 300-350 crore per fiscal, the financial risk profile is likely to remain strong in the medium term. The same would be supported by minimal external debt, a steady revenue growth and healthy profit margins driven by favourable demand prospects besides expanding its geographical reach and introducing new products.

Association with Aliaxis Group –APPL is a part of the Aliaxis Group, which is a global player in the advanced piping systems. The company leverages on the Group's strong brand, established market position, vast geographical presence, experienced management, and technical prowess, which provide flexibility with respect to new product development and enhancement of product portfolio.

Favourable growth prospects for domestic pipe sector – The growth prospects for the pipe sector remain favourable in the medium to long term, given the Government's various initiatives on urban and rural water supply, agriculture and real estate sectors. This augurs well for large organised players like APPL due to its established market position and strong brand presence.

Credit challenges

Margins susceptible to fluctuations in raw material prices and forex rates – The raw material prices remain susceptible to crude oil price movements, foreign exchange rate and demand-supply balance in the market. However, APPL has been able to pass on the raw material price fluctuation to its customers, as observed from its largely stable OPM of 18-21% in the past five years. Further, the raw material import has reduced substantially in the past two years and accounts for 5-10% of the total raw material requirement.

Intense competition in the domestic pipes industry – The domestic pipes and fitting industry is characterised by the presence of large competitors, as well as several mid-sized unorganised players. Despite this, APPL has been able to maintain its market share given its strong brand presence and premium product offerings.

Geographical concentration risks with significant presence in the southern markets – APPL is exposed to high geographical concentration risk with the top three states contributing ~45% to its revenue in FY2021. However, the company is undertaking capex plans to expand its geographical reach in eastern and northern regions and plans to expand its product profile in the existing markets.

Dependence on a single supplier for CPVC resin – As APPL derives 60% of its revenue from CPVC products wherein the raw material, CVPC compounds, are procured from a single supplier, Lubrizol. So, the supplier concentration risk is high. However, the risk is mitigated to an extent due to its -association with Lubrizol since 2004 and the large Aliaxis Group negotiating prices for APPL.

Liquidity position: Strong

APPL's liquidity is expected to remain strong, supported by its healthy free cash flow generation, limited dependence on debt and a cushion in the form of unutilised working capital facilities. The company's cash, bank balance and liquid investments as on March 31, 2021 stood at Rs. 291.1 crore. ICRA expects that the company will be able to undertake its sizeable capex plans with internal accruals and still be left with healthy surplus.

Rating sensitivities

Positive factors – A sustained revenue growth driven by improved market share, geographical diversification while maintaining healthy profitability and strong liquidity position may result in a rating upgrade.

Negative factors – Weakening of market position, leading to a sustained decline in revenue and profitability or any larger-than-expected debt-funded capex or inorganic investments leading to a moderation in debt coverage metrics with Total Debt/OPBDITA of more than 1 times, may result in ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

Incorporated in 1997, APPL manufactures UPVC, CPVC, SWR, HDPE pipes and fittings, water tanks and various other products used across applications in different market segments like building (plumbing), agriculture, industrial and infrastructure. APPL is the licensee of Lubrizol in India to manufacture CPVC plumbing systems.

APPL is a wholly owned subsidiary of the Belgium-based Aliaxis Group. Glynwed Holding B.V, Netherland is the holding company and Aliaxis S.A. is the ultimate holding company. APPL was set up by Mr. Pawan Poddar and his family. In 2013, Glynwed Holding B.V. acquired a 60% stake, which was further increased to 97% in FY2018 and the remaining 3% was acquired over the next three-year period.

Key financial indicators

	FY2020	FY2021 (Prov.)
Operating Income (Rs. crore)	2,925.1	3,503.2
PAT (Rs. crore)	339.6	458.7
OPBDIT/OI (%)	18.2%	21.0%
PAT/OI (%)	11.6%	13.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5
Total Debt/OPBDIT (times)	0.3	0.1
Interest Coverage (times)	73.9	94.8

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Total assets and net worth exclude revaluation reserves
Note: Amount in Rs. crore; All calculations are as per ICRA research
Source: Company data, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					July 27, 2021	-	-	-
1	Fund based/Non Fund Based	Long-term / Short-term	540.0	-	[ICRA]AA(Stable) /[ICRA]A1+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Working Capital Demand Loan	Simple
Export Packing Credit (EPC)/Packing Credit in Foreign Currency (PCFC)	Simple
Post Shipment Credit in Foreign currency	Simple
Cash Credit	Simple
FCNR (B)	Simple
Foreign Bill Purchase (FBP)/ Foreign Bill Discounting (FBD)	Simple
Overdraft	Simple
Short Term Loan	Simple
Buyers Credit	Simple
Import Loan Facility	Simple
Pre shipment Export Finance facility	Simple
Post Shipment Finance Facility	Simple
Post Shipment Buyer Loan-Domestic purchase Finance	Simple
Vendor Finance facility (with recourse)	Simple
Bank Guarantee	Very Simple
Letter of Credit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based/Non Fund Based limits	NA	NA	NA	540.0*	[ICRA]AA(Stable) /[ICRA]A1+

Source: Company; Total limit utilisation cannot exceed Rs. 540 crore; Working Capital Demand Loan – Rs. (333.0) crore, Export Packing Credit EPC/Packing Credit in Foreign Currency PCFC - Rs. (78.0) crore, Post Shipment Credit in Foreign currency - Rs.(58.0) crore, Cash Credit - Rs.(148.0) crore, FCNR B- Rs.(58.0) crore, Foreign Bill Purchase FBP/ Foreign Bill Discounting FBD- Rs.(120.0) crore, Overdraft Rs.(60.0) crore, Short Term Loan - Rs.(200.0) crore, Buyers Credit- Rs. (90.0) crore, Import Loan Facility - Rs. (100.0) crore, Pre shipment Export Finance facility - Rs. 50.0) crore, Post Shipment Finance Facility- Rs. 50.0) crore, Post Shipment Buyer Loan-Domestic purchase Finance - Rs. (50.0) crore, Vendor Finance facility with recourse- Rs. (75.0) crore, Bank Guarantee- Rs. (52.0) crore, Letter of Credit -Rs. (313.0) crore

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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