April 10, 2023

Advance Valves Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based - Cash Credit	19.00	14.50	[ICRA]A-(Stable); reaffirmed
Short-term Non-Fund based - Others	13.02	16.02	[ICRA]A2+; reaffirmed
Total	**32.02**	**30.52**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Advance Valves Private Limited (AVPL) and Advance Valves Global LLP (AVGL), together referred to as the Advance Valves Group or the Group. The entities have strong financial, operational and management linkages with AVPL holding a 51% stake in AVGL.

The rating reaffirmation factors in the strong financial risk profile of the Group, characterised by sustained healthy cash accruals, comfortable capital structure, sufficient liquidity position and robust debt protection metrics. ICRA's ratings continue to consider the Group's experienced management with a long operational track record in the valve manufacturing industry, its established relations with customers and its ability to secure orders from reputed engineering procurement contractors (EPC), and oil and gas majors on the back of product accreditations. Going forward, the Group's revenue will be supported by a pending order book of around Rs. 140 crore as of February 2023 and a healthy inflow of orders from domestic and international clients (~Rs. 325 crore of orders received in FY2023). Given the limited capital expenditure plans and repayment obligations, the Group's liquidity profile is expected to remain satisfactory.

The ratings, however, are constrained by the Group's high working capital intensity due to high inventory holding requirements and receivables and the vulnerability of the operating margins to the fluctuations in raw material prices, primarily steel. In addition, the ratings are constrained by high competitive intensity in the valve manufacturing industry, characterised by the presence of large players in the domestic and overseas markets and small unorganised entities in India.

The Stable outlook reflects ICRA's expectations that the with a sustained order intake, the revenue growth, profitability and liquidity of the Group will continue to be satisfactory.

Key rating drivers and their description

Credit strengths

Established track record in valve manufacturing business – The Group has been manufacturing valves used in various industries since 1987. It manufactures valves for the oil and gas, petrochemical, water, refrigeration and conditioning industries. The promoters have been involved in the valve manufacturing business for more than three decades and have established relationships with customers and suppliers.

Entry barriers due to stringent approval process and quality control – The Group manufactures valves, the use of which is critical, especially in the oil and gas sector. The Group has approval for almost all oil and gas majors globally. The approval process and quality controls are very stringent in the niche valve segment. Hence, it is extremely difficult for new entrants in the industry to establish a foothold.

Healthy financial profile backed by minimal utilisation of working capital limits and comfortable capital structure and debt protection metrics - Over the years, the Group has witnessed healthy profitability. The operating margins remained healthy at 19.5% in FY2020, 21.1% in FY2021 and 18.6% in FY2022. The Group's financial profile also remained healthy, with a strong net worth base of Rs. 189.7 crore and low gearing of 0.1 times as on March 31, 2022. The debt metrics have also remained robust with an interest coverage of 16.7 times and TD/OPBDITA of 0.8 times for FY2022. The Group's financial profile has also benefitted from sustained healthy cash accruals and minimal utilisation of working capital limits, resulting in a sufficient liquidity position.

Order book position provides future revenue visibility – The Group has a comfortable unexecuted order book position of Rs. 140 crore as of February 2023 at the consolidated level, which provides near-term revenue visibility. The order turnaround time is three to eight months. The revenue growth is expected to remain stable with expected healthy order intake on an ongoing basis (~Rs. 325-crore order intake in FY2023).

Credit challenges

High working capital intensity – The Group deals with customers with secured payment trends with the payments being received in phases based on the completion of milestones. As a result, the receivable cycle (~130 days) as well as inventory days (~200 days) remain high, resulting in high overall working capital intensity which was 60.2% in FY2022 though lower than 63% FY2021. Going forward, ICRA expects the Group's operations to remain working capital intensive given the nature of the industry the company operates in.

Intense competition in valves industry due to presence of various players – The Group faces tough competition from big and reputed players such as Emerson, L&T Valves Limited and Flowserve in the domestic and overseas markets as well as various small players in the domestic market while participating in tenders for valves. Therefore, the ability of the Group to record revenue growth while maintaining current profitability will remain a key monitorable.

Margins exposed to raw material price fluctuations – While the orders are generally back-to-back in nature, the company remains exposed to the risk of increase in prices of key raw materials wherein some price variation may have to be accommodated with the suppliers while the customer contracts are fixed price in nature. The in-built margin in customer contracts, at the time of award, takes into account potential upward price variation in raw material prices to some extent.

Liquidity position: Adequate

The company's liquidity profile is adequate, characterised by low working capital utilisation, with an average utilisation of 20.8% of the sanctioned limits of Rs. 32.75 crore for the past 12 months ended December 2022. Further, at the Group level, the free cash and liquid investments were at Rs. 27.1 crore as on March 31, 2022, providing an additional liquidity cushion. The cash flow from operations is expected to remain adequate compared to repayment obligations of Rs. 2.45 crore in FY2024.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the Group demonstrates a sustained improvement in the working capital cycle (debtors and inventory), along with a significant growth in its revenues, while maintaining healthy profitability margins and credit profile.

Negative factors – ICRA may downgrade the ratings if any significant decline in scale or profitability weakens the key credit metrics, or if a stretch in the working capital cycle or a larger-than-projected debt-funded capex adversely impacts the liquidity profile. A specific credit metric that could lead to a downgrade is the total debt/OPBDITA increasing to more than 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach - Consolidation
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the consolidated financial profile of AVPL and AVGL

About the company

AVPL is promoted by Mr. Uma Shanker and his family. The company manufactures valves for diverse industries such as oil and gas, power, water infrastructure and heating, ventilation and air-conditioning (HVAC). The company has two manufacturing units in Noida (Uttar Pradesh) and Gagret (Himachal Pradesh). AVPL's group company, AVGL, is a limited liability partnership (LLP) under the same promoters. It also manufactures valves that cater to the requirements of diverse industries such as oil and gas, power, water infrastructure and HVAC.

Key financial indicators (Audited) - Consolidated

Consolidated	FY2021	FY2022
Operating income (Rs. crore)	209.0	191.5
PAT (Rs. crore)	27.1	19.3
OPBDIT/OI (%)	21.1%	18.6%
PAT/OI (%)	13.0%	10.1%
Total outside liabilities/tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.5	0.8
Interest coverage (times)	19.8	16.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Key financial indicators (Audited) - Standalone

Standalone	FY2021	FY2022
Operating income (Rs. crore)	135.3	120.6
PAT (Rs. crore)	22.1	14.1
OPBDIT/OI (%)	14.6%	12.5%
PAT/OI (%)	16.3%	11.7%
Total outside liabilities/tangible net worth (times)	0.2	0.1
Total debt/OPBDIT (times)	0.1	0.4
Interest coverage (times)	51.6	53.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not Available

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					10-Apr-2023	07-Apr-2022	26-Feb-2021	20-Mar-2020	24-Jan-2020
1	**Long-term Fund-based - Cash Credit**	Long Term	14.50	-	**[ICRA]A-(Stable)**	[ICRA]A-(Stable)	[ICRA]BBB+(Positive)	[ICRA]BBB+(Positive)	[ICRA]BBB+(Positive)
2	**Short-term Non-Fund based - Others**	Short Term	16.02	-	**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based - Cash Credit	Simple
Short-term Non-Fund based - Others	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 are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term Fund-based - Cash Credit**	-	-	-	14.50	[ICRA]A-(Stable)
NA	**Short-term Non-Fund based - Others**	-	-	-	16.02	[ICRA]A2+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Advance Valves Private Limited (AVPL)*	100.00%	Full Consolidation
Advance Valves Global LLP (AVGL)	51.00%	Full Consolidation

Source: *Company, AVPL holds 51% stake in AVGL*

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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.

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