August 22, 2023

Anugraha Valve Castings Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based - Term loan	25.00	25.00	[ICRA]BBB+ (Stable); reaffirmed
Short-term fund-based- Working capital limits	60.00	60.00	[ICRA]A2; reaffirmed
Short-term non-fund based - Others	5.00	5.00	[ICRA]A2; reaffirmed
Short-term fund-based- Standby limit	10.00	10.00	[ICRA]A2; reaffirmed
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings continues to factor in AVCL's extensive experience of around three decades in the steel castings business and its reputed client profile with a track record of repeat orders. The ratings also consider the above-average financial risk profile, market by comfortable leverage and debt coverage metrics. Further, the improvement in sales realisations post the renegotiation of prices with its clients and stable raw material prices would improve the profit margins and thereby the debt coverage metrics of AVCL in FY2024 from the FY2023 levels. ICRA also notes AVCL's plans to sell the vacated unit for Rs. 20-25 crore in FY2024, which if done, will improve the liquidity position.

However, the ratings are constrained by the company's moderate scale of operations, volatile profit margins and the moderately high customer concentration risks. The ratings also consider the exposure of margins to the fluctuations in raw material prices and exchange rates and the adverse regulatory changes on export incentives, in addition to the higher working capital intensity of operations.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the company is likely to report steady revenue growth along with the improvement in margins, driven by stable demand and an established clientele base, while maintaining comfortable debt protection metrics and liquidity.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in valve-casting business - AVCL has been manufacturing and exporting steel castings since 1993, which are used in the valve and pump industries. The promoter has around three decades of experience in the steel castings and valve-manufacturing businesses.

Established relationship with reputed customers – About 89% of AVCL's revenues are derived from exports, with most of its customers concentrated in European countries such as Germany, Italy and France. AVCL's established relationship with customers from the engineering, petroleum, chemical and gas industries has resulted in limited churn and ensured repeat orders.

Comfortable capital structure and debt protection metrics – The company's financial risk profile remains comfortable, marked by a strong net worth base and conservative debt levels over the years. The company's capital structure stood comfortable with a gearing of 0.4 times as on March 31, 2023. The coverage metrics moderated in FY2023 due to an increase in the total debt levels and subdued operating margins. The interest coverage stood at 4.2 times and TD/OPBDITA at 7.6 times in FY2023 against 8.5 times and 8.46 times, respectively, in FY2022.

The operating margins remained subdued at ~2.6-3.3% in FY2022 and FY2023. The operating margins, however, rose to 8% in 4M FY2024 (provisional figures) owing to the improvement in realisations, post the renegotiation of prices with its clients and softening in raw material prices. In FY2023, the company also completed the capex for shifting one of its foundry and relocating the investment casting division. The total cost was Rs. 35 crore, funded through a term loan of Rs. 25 crore and the balance through internal accruals. Going forward, despite an increase in the overall debt levels, ICRA believes the coverage metrics are likely to improve with an estimated interest coverage of 5 times and TD/OPDITA of 3 times for FY2024 due to the improved profit margins.

Credit challenges

Moderate scale of operations with moderately high customer concentration - The company's scale of operations remains moderate, evident from an operating income of Rs. 316.5 crore in FY2023. Though the company has an established relationship with its customers, the revenue contribution from the top-five customers remained high at ~57% in FY2023. The high dependence on a few customers and geographies accentuates the risk of revenue volatility that may arise from variations in demand or any disruption in client business.

High working capital intensity - AVCL's working capital requirements are generally high due to the long transit cycles. The collection cycle is around three months for both exports and domestic customers, while the creditors are paid within 60 days so that they can avail the discounts. The average manufacturing cycle varies from three to four months and depends on the complexity of design and the degree of customisation. The NWC/OI remained high at 44% in FY2023, which improved slightly from the FY2022 level of 47% owing to an increase in the creditor days.

Profitability margins vulnerable to fluctuations in raw material prices and regulatory changes on export incentives - Ferrous scrap is the major raw material for the company. Any adverse fluctuation in the price of scrap is likely to impact the company's earnings. Also, as the company makes ~89% of its sales to the export market, any adverse regulatory changes in export incentives are likely to impact the earnings. The profit margins remained volatile in the last few years. The profitability was subdued in FY2022 and FY2023 due to a decline in operating margins owing to the reduced spreads between raw material costs and end-product realisations. A sequential improvement in realisations and softening in raw material cost has improved the operating profit in the last few quarters. Going forward, an improvement in OPM for a sustained period would remain a key rating monitorable.

Liquidity position: Adequate

AVCL's liquidity is adequate, supported by the cushion in its cash credit limits of ~Rs.6.9 crore as of July 2023 in the form of undrawn bank lines. The company enhanced its working capital limits in September 2022 to Rs. 70 crore from Rs. 54.6 crore, with an average utilisation of 88% as of June 2023. AVCL has a repayment obligation of Rs. 6.25 crore in FY2024. The projected cash flow from operations is expected to remain adequate to meet the working capital requirements and debt repayment obligations.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company demonstrates a sustained improvement in its sales and operating profit margin leading to an improvement in the key credit metrics and liquidity position.

Negative factors – ICRA may downgrade the ratings if the scale or profitability continues to be significantly low, weakening the key credit metrics on a sustained basis. Any further stretch in the working capital cycle, or a higher-than-projected debt funded capex adversely impacting the liquidity profile may also lead to a downgrade. A specific credit metric for downgrade is the interest coverage dropping below 4.0 times on a sustained basis.

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 standalone financial statements of the company

About the company

Anugraha Valve Castings Limited (AVCL), incorporated in 1993 in Coimbatore, is a steel casting foundry, manufacturing and exporting stainless steel and alloy steel castings for valve and pump industries. AVCL manufactures steel valves in different shapes and sizes according to the design specifications provided by the customers. Its customers are major valve manufacturers who cater to the requirements of the engineering, petroleum, oil & refinery chemical and gas industries. The nature of the industrial valves supplied include gate valves, globe valves, swing check valves, strainer valves, control valves, ball valves, butterfly valves, plug valves etc. AVCL's main focus is on the production of industrial valve castings with sizes ranging from DN15 (0.5") to DN600 (24"), according to ASTM and EN specifications in raw and fully machined condition. The manufacturing facilities - four foundries and one machine shop - are in Coimbatore with a production capacity of 20,100 MTPA.

In 2007-08, the company merged its group company, Graha Industrial Private Ltd. (GIPL), with itself. While the company was catering to local demand in the initial years, post 1999, AVCL started exporting steel castings to European companies and has since focussed exclusively on overseas clients and built strong relationship over the years. AVCL currently exports majority of its output to the European countries, especially to Germany, France & Italy, and is also expanding into the US, China and Canada.

Key financial indicators (audited)

	FY2021	FY2022	FY2023*
Operating income	215.3	242.1	316.5
PAT	14.0	4.2	1.8
OPBDIT/OI	13.0%	2.6%	3.3%
PAT/OI	6.5%	1.7%	0.6%
Total outside liabilities/Tangible net worth (times)	0.3	0.5	0.6
Total debt/OPBDIT (times)	0.9	8.5	7.6
Interest coverage (times)	27.5	7.9	4.2

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional data*

Status of non-cooperation with previous CRA: Not applicable

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 March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022			Date & rating in FY2021
					Aug 22, 2023	Nov 14, 2022	Nov 18, 2021	Jun 10, 2021	Apr 08, 2021	-
1	Long term-fund based term loan	Long term	25.00	23.51	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable) assigned	-	[ICRA]A- (Stable); reaffirmed and withdrawn	-
2	Short term-fund based -working capital limits	short term	60.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
3	Short term non-fund based-others	short term	5.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	-	-
4	Short term fund based – stand by limit	short term	10.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2+	-	-	-
5	Short term standby limit – CEL	Short-Term	-	-	-	-	[ICRA]A2+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based - Term loan	Simple
Short-term fund-based - WC limits	Simple
Short-term non-fund based - Others	Very Simple
Short-term fund-based - Standby limit	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 - Term loan**	FY2022	NA	Dec FY2027	25.00	[ICRA]BBB+ (Stable)
NA	**Short-term fund-based - WC limits**	NA	NA	NA	60.00	[ICRA]A2
NA	**Short-term non-fund based - Others**	NA	NA	NA	5.00	[ICRA]A2
NA	**Short-term fund-based - Standby limit**	NA	NA	NA	10.00	[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: Not Applicable

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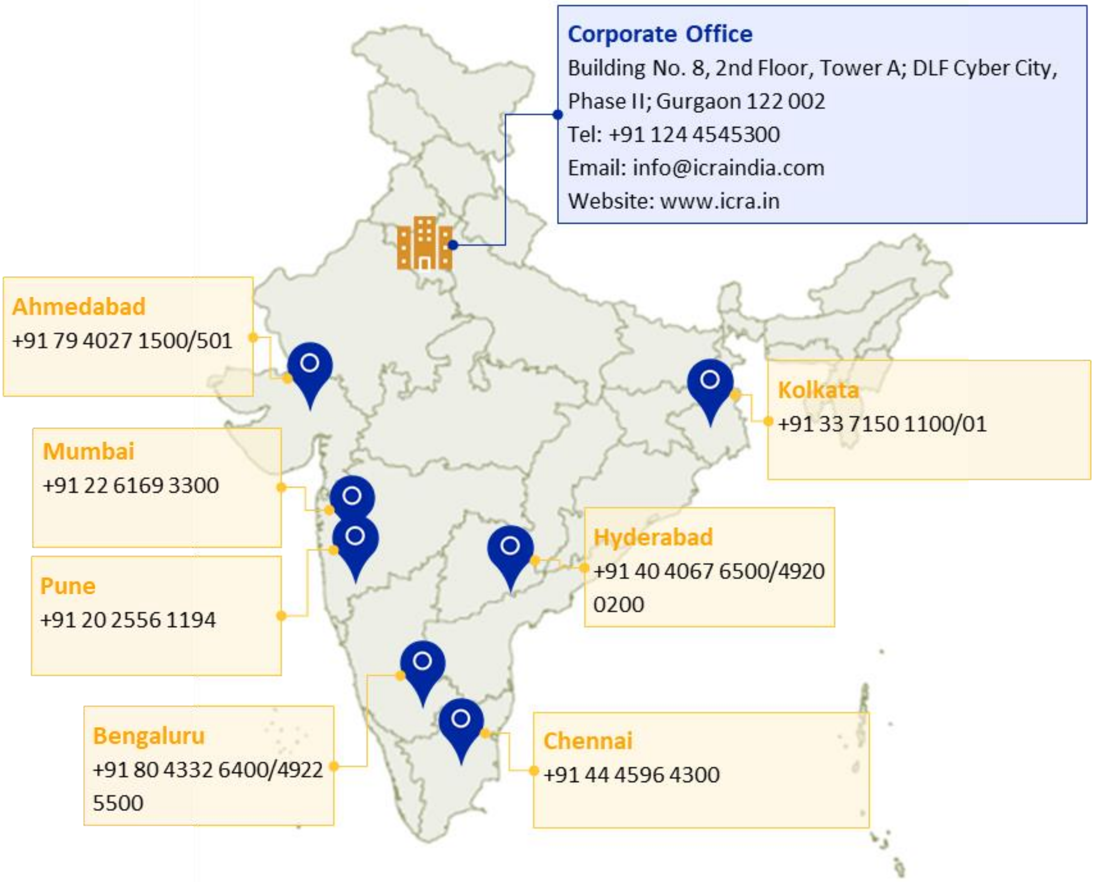

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