September 26, 2024

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	16.00	[ICRA]BBB+ (Stable); reaffirmed
Short term – Fund-based – Cash credit	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 line of credit	10.00	10.00	[ICRA]A2; reaffirmed
Total	**100.00**	**91.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in ICRA's expectation that AVCL will maintain a steady financial risk profile, characterised by comfortable cash accruals, a healthy capital structure and adequate debt protection metrics. The ratings continue 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. Going forward, the company's revenue will be supported by a pending orderbook of around Rs. 150 crore as on date and expectations of a sustained inflow of orders from domestic and international clients. The company's profitability improved in FY2024, largely owing to a moderation in raw material prices. The ability of the company to continue to generate healthy profitability will be a key monitorable.

However, the ratings are constrained by the company's elevated working capital intensity due to the high inventory holding requirement and receivables, the relatively high customer concentration risk and the vulnerability of the operating profit margins to the fluctuation in raw material prices. The elevated working capital intensity has translated into relatively high utilisation of working capital limits, leaving limited cushion in the same. In addition, the ratings are constrained by the highly 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 on the [ICRA]BBB+ rating reflects ICRA's opinion that the company's cash flow generation and liquidity will remain comfortable, translating into a comfortable credit profile.

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 casting 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. Its capital structure was comfortable with a gearing of 0.4 times as on March 31, 2024. The coverage metrics were better in FY2024 with an improvement in profitability. The interest coverage stood at 8.09 times and TD/OPBDITA at 2.29 times in FY2024 against 4.23 times and 7.63 times, respectively, in FY2023.

Credit challenges

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 15 to 20 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 49% in FY2024, which rose slightly from the FY2023 level of 44% owing to an increase in the inventory 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 ~93% of its sales are to the export market, any adverse regulatory change in export incentives is likely to impact the earnings. The profit margins have remained volatile in the last few years. 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 the OPM for a sustained period would remain a key rating monitorable.

Relatively high customer concentration – AVCL's customer concentration remains high with more than ~40% of the total revenues accruing from the top 10 customers. However, there has been increasing diversification of the customer base as AVCL is adding more clients from different regions.

Liquidity position: Adequate

AVCL's liquidity is adequate, supported by an average cushion in its cash credit limits of Rs. 6-7 crore over the last 12 months in the form of undrawn bank lines and cash balances of more than Rs. 2 crore, along with expectations of comfortable cash flow generation from operation. AVCL has a repayment obligation of Rs. 6.24 crore in FY2025, which it is likely to meet comfortably out of its cash accruals amid minimal capex plans.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company demonstrates a sustained improvement in its margin profile. Further, an improvement in the working capital intensity will enhance the liquidity profile and will be key for an upgrade.

Negative factors – ICRA may downgrade the ratings if the profitability moderates, weakening the key credit metrics and liquidity on a sustained basis. 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 and manufacturer and exporter of 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, primarily serving to 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 size 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 at 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, after 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 and Italy, and is also expanding to the US, China and Canada.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	316.5	375.4
PAT	1.8	20.5
OPBDIT/OI	3.3%	9.9%
PAT/OI	0.6%	5.5%
Total outside liabilities/Tangible net worth (times)	0.6	0.6
Total debt/OPBDIT (times)	7.6	2.3
Interest coverage (times)	4.2	8.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)				Chronology of rating history for the past 3 years					
					FY2024		FY2023		FY2022	
	Type	Amount rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Short term - Cash credit – Fund-based	Short term	60.00	26-Sep-2024	[ICRA]A2	22-Aug-2023	[ICRA]A2	14-Nov-2022	[ICRA]A2	08-Apr-2021	[ICRA]A2+
					-	-	-	-	10-Jun-2021	[ICRA]A2+
					-	-	-	-	18-Nov-2021	[ICRA]A2+
Short term – Others – Non-fund based	Short term	5.00	26-Sep-2024	[ICRA]A2	22-Aug-2023	[ICRA]A2	14-Nov-2022	[ICRA]A2	08-Apr-2021	[ICRA]A2+
					-	-	-	-	10-Jun-2021	[ICRA]A2+
					-	-	-	-	18-Nov-2021	[ICRA]A2+
Long term - Term loan – Fund-based	Long term	16.00	26-Sep-2024	[ICRA]BBB+ (Stable)	22-Aug-2023	[ICRA]BBB + (Stable)	14-Nov-2022	[ICRA]BBB + (Stable)	08-Apr-2021	[ICRA]A- *; withdrawn
					-	-	-	-	18-Nov-2021	[ICRA]A- (Stable)
Short term - Standby line of credit – Fund-based short term standby limit – CEL	Short term	10.00	26-Sep-2024	[ICRA]A2	22-Aug-2023	[ICRA]A2	14-Nov-2022	[ICRA]A2	18-Nov-2021	[ICRA]A2+
									18-Nov-2021	[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	FY2027	16.00	[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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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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