October 08, 2024

Ashirvad Pipes Private Limited: Long-term rating downgraded to [ICRA]AA-(Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term - Fund based/Non-fund based	1,250.0	1,250.0	[ICRA]AA-(Stable)/ [ICRA]A1+; long-term rating downgraded from [ICRA]AA(Stable); short-term rating reaffirmed
Long term/Short term Unallocated limits	50.0	50.0	[ICRA]AA-(Stable)/ [ICRA]A1+; long-term rating downgraded from [ICRA]AA(Stable); short-term rating reaffirmed
Total	**1,300.0**	**1,300.0**	

**Instrument details are provided in Annexure-I*

Rationale

The downgrade of the long-term rating of Ashirvad Pipes Private Limited (APPL) factors in a sustained decline in its operating margins over the past two financial years, resulting in a moderation of its financial profile. ICRA has received FY2024 financials from the company on September 26, 2024. The OPM was impacted by volatility in raw material prices, higher fixed cost, provisions and adjustment with respect to dealer incentives and pending receivables. Further, product launches in bathroom and kitchen fitting segments and increasing revenue contribution from the infrastructure vertical which has relatively low margin compared to the other verticals also impacted the operating margins to an extent. APPL's profitability remains exposed to the variation in raw material prices. The operating margin is likely to improve in FY2025; however, it will continue to be subdued compared to the historical highs of 18%-21% between FY2018 and FY2023. Further, working capital intensity arising from high-cost inventory and higher debtor days has resulted in a higher utilisation of the fund-based working capital facilities, which has moderated the debt coverage indicators in FY2024 and FY2023 compared to the historical levels when the company used to be debt-free.

ICRA notes that in the annual reports of FY2023 and FY2024, the auditor has given a qualified opinion on the company's internal financial controls. As per the discussion with the management, ICRA understands the company has taken several corrective measures to strengthen its internal controls. The management is of the view that there are no further adjustments to be made to the financial statements other than those made in FY2024. Going forward, any adverse impact on the company's profitability due to the above highlighted challenges would remain a key rating sensitivity.

The ratings are constrained by intense competition in the domestic PVC pipes segment from both the organised and unorganised segments and the geographical concentration risk with the top three states accounting for high concentration of its revenue. Additionally, APPL is exposed to supplier concentration risk with high dependence on a single supplier. However, the company has been sourcing CPVC from other overseas suppliers over the last few years.

ICRA notes that the company is undertaking capex to set up two manufacturing facilities over the next two years with a combined outlay of ~Rs. 1,000 crore, which the company expects to fund majorly from internal accruals. The capex will enable the company to expand its geographical reach.

The ratings, however, draw comfort from APPL's established market position and strong brand presence in the domestic CPVC and UPVC pipes and fitting industry, supported by its expansive product profile and a wide distribution network. The ratings also derive support from APPL's comfortable capital structure, characterised by limited dependence on debt which is majorly working capital in nature. 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. Further, the growth prospects for the pipe sector remain favourable in the medium to long term, given the Government's various initiatives in urban and rural water supply, agriculture and infrastructure sectors.

The Stable outlook reflects ICRA's expectations that the company is likely to sustain its market position and strong brand presence. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, which will help expand the geographic and product portfolio, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

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 pipes and fitting industry, backed by its wide distribution network and ability to introduce new products. Over the years, APPL has diversified its product portfolio through the 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 such as buildings (plumbing), agriculture, and the industrial and infrastructure sectors. APPL primarily operates on a distributor-dealer network model with its network of 1,500+ distributors and 60,000+ retail partners. Going forward, the company plans to emerge as a comprehensive water management solution provider.

Comfortable capital structure – APPL's capital structure has been conservative, reflected in a gearing of 0.2 times as on March 31, 2024, and nil long-term external term debt. However, APPL's coverage indicators moderated in FY2024 and FY2023 due to subdued operating margins. The company has estimated capex plans of Rs. 450-500 crore per fiscal. The proposed capex will be funded in a manner that it is able to durably maintain its debt protection metrics.

Going forward, the financial profile would be supported by minimal external long-term debt, a recovery in profit margins and steady revenue growth, driven by favourable demand prospects, besides its expanding geographical reach and introduction of new products.

Association with Aliaxis Group –APPL is a part of the Aliaxis Group, which is a global player in 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 the 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 in urban and rural water supply, and agriculture and infrastructure sectors. This augurs well for large, organised players like APPL due to its established market position and a strong brand presence.

Credit challenges

Margins susceptible to fluctuations in raw material prices – The raw material prices remain susceptible to crude oil price movements and demand-supply balance in the market. Raw material accounts for majority of the cost of production. As observed in FY2023 and FY2024, the OPM was adversely impacted owing to a decline in the gross margin arising from higher fluctuations in raw material price vis-à-vis prevailing finished goods prices. The OPM moderated to 5.7% in FY2024 and 7.3% in FY2023 from 18.1% in FY2022.

Dependence on a single supplier for CPVC resin –APPL derives ~ 55% of its revenue from CPVC products wherein the raw material, CVPC compounds, is procured majorly 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 negotiation of prices at the group level. Additionally, the company has been sourcing CPVC from other overseas suppliers over the last few years.

Intense competition in 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 southern markets – APPL is exposed to high geographical concentration risk with the top three states contributing ~41% to its revenue in FY2023. However, the company is undertaking capex plans to widen its geographical reach, besides expanding its product profile in the existing markets.

Liquidity position: Adequate

APPL's liquidity is expected to remain adequate, supported by healthy cash accruals against nil long-term debt repayment obligations and adequate cushion in the form of unutilised working capital facilities to fund the working requirement. The average utilisation of sanctioned working capital facilities is 40% for the 12 months ended September 2024. Further, ICRA expects that the sizeable capex will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

Rating sensitivities

Positive factors – A healthy improvement in profitability along with a sustained revenue growth and a strong liquidity position may result in an upgrade.

Negative factors – A weakening of the 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 on a sustained basis may result in downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financials of APPL

About the company

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

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. APPL is a wholly-owned subsidiary of the Belgium-based Aliaxis Group. Glynwed Holding B.V, Netherlands, is the holding company and Aliaxis S.A. is the ultimate holding company.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	4,529.7	4,720.2
PAT	88.5	17.2
OPBDIT/OI	7.3%	5.7%
PAT/OI	2.0%	0.4%
Total outside liabilities/Tangible net worth (times)	0.6	0.6
Total debt/OPBDIT (times)	2.3	1.9
Interest coverage (times)	6.5	4.5

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 rating (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
				Oct 8, 2024	March 15, 2024	Jan 29, 2024	Oct 31, 2022	Jul 27, 2021
1	**Fund based/Non-fund based**	Long term /Short term	1250.0	**[ICRA]AA-(Stable)/ [ICRA]A1+**	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+
2	**Unallocated**	Long term /Short term	50.0	**[ICRA]AA-(Stable)/ [ICRA]A1+**	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based/Non-fund based	Simple
Unallocated	Not applicable

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	**Fund based/Non-fund based**	NA	NA	NA	1250.0	[ICRA]AA-(Stable)/[ICRA]A1+
NA	**Unallocated limits**	NA	NA	NA	50.0	[ICRA]AA-(Stable)/[ICRA]A1+

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

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Kushal Kumar B
+91 40 6939 6408
Kushal.kumar@icraindia.com

Sankalpa Mohapatra
+91 40 6939 6409
sankalpa.mohapatra@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

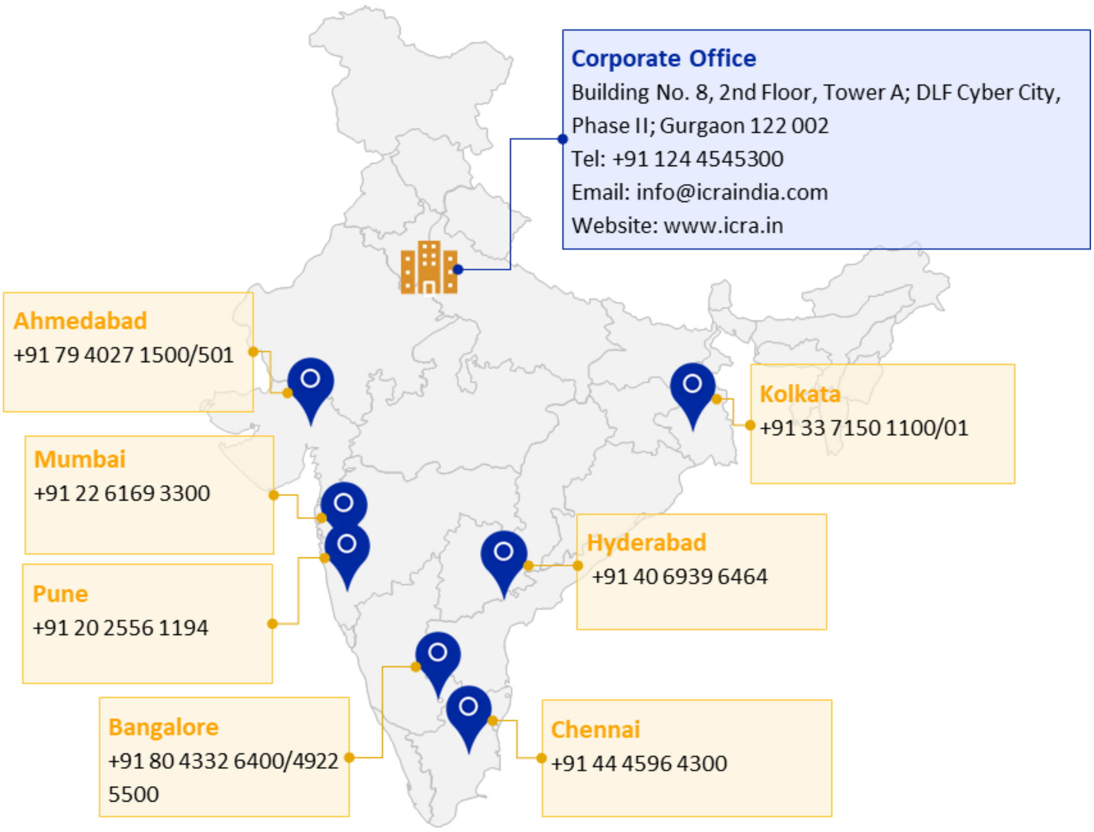
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.