October 31, 2022

Ashirvad Pipes Private Limited : Ratings reaffirmed; rated amount enhanced

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	540	1300	[ICRA]AA(Stable)/[ICRA]A1+ reaffirmed/assigned
Total	**540**	**1300**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings 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 a sustained healthy growth in operating income over the past five years, robust operating margins 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 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. Further, the OPM in FY2023 is likely to moderate, given the likely inventory loss from a sharp fall in resin prices, 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.

The ratings further take into consideration the geographical concentration risk with the top three states accounting for 54% of its revenue in FY2022. 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, the association with Lubrizol at the Aliaxis Group level mitigates the risk to a certain extent. Additionally, the company has been sourcing CPVC from other overseas suppliers over the last one-and-a-half years. ICRA notes that the company is undertaking capex to set up manufacturing facilities in Telangana and Tamil Nadu over the next 18 months with a combined outlay of Rs 750-800 crore, which is expected to be funded entirely from internal accruals. The capex will enable the company to extend its geographical reach, expand into untapped markets and reduce the raw material availability risk.

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.

[1] CPVC- Chlorinated polyvinyl chloride, UPVC - unplasticised polyvinyl chloride

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 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, industrial and infrastructure. 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.

Robust financial profile – APPL's financial profile has been robust, characterised by healthy operating margins, conservative capital structure and nil long-term debt. Moreover, APPL's coverage indicators remained comfortable, reflected in an interest coverage of 106.9 times, total debt/OPBITDA of 0.1 times and NCA/total debt of 708.0% in FY2022. Further, APPL's operating income (OI) witnessed a healthy rise by 29% to Rs.4,504.2 crore in FY2022 from Rs, 3,503.2 crore in FY2021 due to a strong increase in realisation and stable volumes, supported by deeper penetration in the market and wider geographical reach as it has been ramping up its capacities. Further, the company has estimated capex plans of Rs. 400-450 crore per fiscal. Despite the proposed capex, 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 its expanding its 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 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 infrastructure 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 rates and demand-supply balance in the market. Further, the OPM in FY2023 is likely to moderate, given the likely inventory loss from sharp fall in resin prices, 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.

Dependence on a single supplier for CPVC resin –APPL derives 60% of its revenue from CPVC products wherein the raw material, CVPC compounds, are 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 large Aliaxis Group negotiating prices for APPL. Additionally, the company has been sourcing CPVC from other overseas suppliers also, over the last one-and-a-half 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 ~54% to its revenue in FY2022. However, the company is undertaking capex plans to expand 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 incremental working requirement for the near-term increase in inventory position. Further, ICRA expects that the company will be able to undertake its sizeable capex plans with internal accruals. The company's cash, bank balance and liquid investments as on March 31, 2022, stood at Rs. 120.5 crore.

Rating sensitivities

Positive factors – A sustained revenue growth while maintaining healthy profitability and strong liquidity position may result in a rating upgrade.

Negative factors – 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 with total debt/OPBDITA of more than 1 times on a sustained basis 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 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, 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, Netherlands, 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

Consolidated	FY2021	FY2022*
Operating income	3,503.2	4,504.2
PAT	460.9	515.0
OPBDIT/OI	20.8%	18.0%
PAT/OI	13.2%	11.4%
Total outside liabilities/Tangible net worth (times)	0.4	0.4
Total debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	95.8	106.9

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Total assets and net worth exclude revaluation reserves;Note: Amount in Rs. crore; All calculations are as per ICRA Research; * Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					October 31, 2022	July 27, 2021	-	-
1	Fund based/Non fund based	Long-term /Short term	1300	-	[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/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: www.icra.in

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	1300	[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

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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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