Hawa Valves (India) Private Limited

July 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	50.99 (Reduced from 62.85)	CARE BB; Stable (Double B; Outlook: Stable)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE B; Stable; (Single B; Outlook: Stable)
Long Term / Short Term Bank Facilities	100.00	CARE BB; Stable / CARE A4 (Double B; Outlook: Stable/ A Four)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE B; Stable / CARE A4; (Single B ; Outlook: Stable / A Four)
Short Term Bank Facilities	24.00	CARE A4 (A Four)	Rating removed from ISSUER NOT COOPERATING category and Reaffirmed
Total Bank Facilities	**174.99 (₹ One Hundred Seventy-Four Crore and Ninety-Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Hawa valves (India) private Limited (HVPL) considers significant improvement in profit margins in FY22, improvement in capital structure and debt coverage and liquidity position. The ratings continue to remain tempered by its working capital-intensive nature of operations, susceptibility of profit margins to any adverse movement in key raw material prices and foreign exchange fluctuations, moderate financial risk profile, presence in intensely competitive industry. The ratings continue to derive strengths from vast experience of the promoters and track record of HVPL in the valves industry, and capital structure, accredited manufacturing facilities, and financial aid from PE investor.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in operating income by 10%-20% along with improvement in operating profitability (at 18.00% and above)
- Improvement in overall gearing (below 1.00 times) and debt coverage indicators
- Significant improvement in operating cycle below 400 days coupled with lower reliance on short-term borrowings

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deuteriation in interest coverage below unity
- Decline in operating cycle more than 550 days coupled with higher reliance on short-term borrowings

Detailed description of the key rating drivers

Key rating weaknesses

Decline in scale of operations with fluctuating profitability margin

HVPL's scale of operation has reflected declining trend since FY18-21 and further declined (by 10.25% on y-o-y basis) in FY22 to total income of Rs.138.46 crore (vis-à-vis Rs. 154.28 crore in FY21) due to lower demand from end users due to outbreak of COVID.

Nevertheless, comfort can be derived from the fact that HVPL has orderbook position of Rs.184.87 crore in hand which derives near to medium term revenue visibility as the same is expected to be executed by FY23.
PBILDT margin stood in the range of 13% to 20% in past (FY18-20). However, despite the decline in scale of operation, the operating margin improved due to savings in the cost (owing to various cost-effective measures undertaken by PE investor).
PAT margin stood low due to high interest and depreciation expenses. Due to decline in operating margin coupled with above it posted net loss in FY21.
Debt servicing in past was supported by Vilayil Ventures Private Limited by infusing equity share capital.
During FY22 it posted profits.

Moderate capital structure and weak debt coverage indicators

HVPL's financial profile is moderate with overall gearing of 1.03x as on March 31, 2022 compared to 1.07x as on March 31, 2021 due to moderate accretion of profits to reserves & regular infusion by the PE investor. However due to low cash accruals

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

and high dependence on external borrowing to fund the business operation, total debt to GCA stood weak. Interest coverage ratio has remained weak due to high interest expenses against low profitability. However, the same has improved marginally in FY22.

Working capital intensive nature of operations

Operations of HVPL are highly working capital intensive marked by funds blocked in inventory as it manufactures customized products the projects take average 8 to 10 months for completion. However, the same is funds through creditors due to higher credit period availed from creditors due to established relations. Further debtors include retention money 10% of total contract price. HVPL's working capital cycle has further stretched to 515 days in FY22 vis-a-vis 437 days in FY21 primarily on lower credit period availed from its suppliers.

Inventory holding period even though improved, it continues to elongated as it manufactures customized products wherein the processing time is high. However, the inventory write-off risk is minimal due to customized nature of the equipment's manufactured. Moreover, given the customized nature of the product, the manufacturing cycle is large and varies from six to ten months. EDPL has to maintain sufficient raw material inventory.

However, despite the stretched operating cycle the average utilisation of the working capital limits remained low at 89.12% and average maximum utilisation at 91.23% for past 12 months ended May 31, 2022.

Operations in the competitive and fragmented valve industry

The company operates in a highly competitive and fragmented industry. The company has established itself in the industry witnessing intense competition from players operating in both organized and unorganized markets. The fragmented and highly competitive industry has resulted into price competition thereby limiting the bargaining power of the company and thus affecting the profit margins of the companies operating in the industry.

Susceptibility of margins to foreign exchange fluctuation risk

The company imports its critical raw materials from China, Germany, Italy and United Kingdom. Also, it is export oriented company, with export sales contributing around 85% - 90% with exports to around 42 countries like UAE, Indonesia, Malaysia etc., hence it is natural hedge, however it is still under risk due to timing difference.

Key rating strengths

Experience of the management in the valve manufacturing industry

The company is spearheaded by Mr. Javed Hawa, Diploma in Mechanical Engineering with more than three decades of experience in the valves industry and with 16 international patents granted thereby leading a strong technical thrust to the company and future growth prospectus and now backed by Mr. Abdul Salim Alikunju, joint managing director (MD), who is also highly experienced and is the managing director of M/s. Vilayil Ventures Private Limited and M/s. Fortune Engineering & Energy Services LLC based in Dubai, UAE amongst having controlling interests in many other large entities worldwide. Mr. Abdul Salim Alikunju is actively engaged in business operations of HVPL and supports many functions namely conceptual design, feasibility study, front end engineering & design (FEED), engineering, procurement, construction and commissioning (EPCC) of process, mechanical, piping, electrical, instrumentation, control, automation and telecom systems with a highly successful track record. The promoters are ably supported by the second and third line of management having relevant experience in the industry. Over its track record of almost two decades, the company has established relationship with the customers, suppliers and other stakeholders in the industry.

Established relationship with the reputed client base

The company continues to cater to the needs of reputed clientele operating across oil & gas, petro-chemical and engineering industries and other players including EPC (Engineering, Procurement and Construction) industry. Moreover, significant comfort can be derived as the counterparty risk gets mitigated to an extent on the back of healthy credit profile of this reputed clientele. Furthermore, the company receives repeat orders from their well-established relationship with its reputed client base. Company get repeated orders from reputed customers namely Shell worldwide, Saudi Aramco, Petroleum development of Oman, Petronas, ADCO, GASCO, Kuwait oil company, GSPL, HPCL etc.

Liquidity: Stretched

Liquidity position of the entity is stretched with tightly matched accruals to the repayment obligations. Operating cycle was elongated to 515 days in FY22(Prov.) on account of extended collection period from debtors and high inventory storage, delay in collection and high inventory was maintained owing average duration for a project to compete is around 8 to 10 months for which company get paid in stages and some customers retain 10% for final quality check. Entity has been utilizing its working capital limit on an average of 89.12% and maximum utilization of 94.35% for the past twelve months ending May 31, 2022. Any contingent working capital requirement is fulfilled through the working capital loans. Free cash and bank balance stood at Rs.1.35 crore as on March 31,2022.

Analytical approach: Standalone

Applicable criteria
Policy on default recognition
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology – Manufacturing Companies
Criteria on Short Term Instruments
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the company
Incorporated in the year 2001, Hawa Valves (India) Private Limited (HVPL) is engaged in manufacturing of industrial valves under various international standards. These valves are used in oil & gas, petrochemical and other engineering industries.
Over the years, the company has expanded its presence from being a core manufacturer to an end-to-end service provider – including conception, detailed drawing and manufacturing of the customized valves. It is primarily an export-oriented company. The company is a preferred supplier for various reputed and renowned oil and gas companies. Apart from domestic suppliers, the company procures raw materials through imports from various countries including China, Germany, Italy and United Kingdom. During FY16, the company had set up a wholly-owned subsidiary in Saudi Arabia – Hawa Valves Arabia Company. Company has registered 13 patented products & awaiting for 9 products for patent in India as well as in multiple countries.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	Q1FY23
Total operating income	154.28	138.46	NA
PBILDT	1.45	17.88	NA
PAT	-18.27	0.76	NA
Overall gearing (times)	1.07	1.03	NA
Interest coverage (times)	0.11	1.45	NA

A: Audited, P: Provisional, NA: Not Available

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Sept, 2022	0.99	CARE BB; Stable
Fund-based - LT-Cash Credit		-	-	-	50.00	CARE BB; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	100.00	CARE BB; Stable / CARE A4
Fund-based - ST-PC/Bill Discounting		-	-	-	24.00	CARE A4

CareEdge RATINGS

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	0.99	CARE BB; Stable	-	1)CARE B; Stable; ISSUER NOT COOPERATING* (28-Mar-22) 2)CARE B+; Stable (04-Jun-21) 3)CARE BB; Stable; ISSUER NOT COOPERATING* (07-Apr-21)	1)CARE BB+; Stable (03-Apr-20)	1)CARE BBB-; Negative (05-Apr-19)
2	Fund-based - LT-Cash Credit	LT	50.00	CARE BB; Stable	-	1)CARE B; Stable; ISSUER NOT COOPERATING* (28-Mar-22) 2)CARE B+; Stable (04-Jun-21) 3)CARE BB; Stable; ISSUER NOT COOPERATING* (07-Apr-21)	1)CARE BB+; Stable (03-Apr-20)	1)CARE BBB-; Negative (05-Apr-19)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	100.00	CARE BB; Stable / CARE A4	-	1)CARE B; Stable / CARE A4; ISSUER NOT COOPERATING* (28-Mar-22) 2)CARE B+; Stable / CARE A4 (04-Jun-21) 3)CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING* (07-Apr-21)	1)CARE BB+; Stable / CARE A4+ (03-Apr-20)	1)CARE BBB-; Negative / CARE A3 (05-Apr-19)
4	Fund-based - ST-PC/Bill Discounting	ST	24.00	CARE A4	-	1)CARE A4; ISSUER NOT COOPERATING* (28-Mar-22) 2)CARE A4 (04-Jun-21) 3)CARE A4; ISSUER NOT	1)CARE A4+ (03-Apr-20)	1)CARE A3 (05-Apr-19)

						COOPERATING* (07-Apr-21)		

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not available

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-PC/Bill Discounting	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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