# Dembla Valves Limited

April 04, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term / Short Term Bank Facilities | 25.00 | CARE BBB-; Stable / CARE A3 | Assigned |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The ratings assigned to the bank facilities of Dembla Valves Limited (DVL) derive comfort from moderately comfortable profit margins, comfortable capital structure and moderate debt coverage indicators in FY23 (Audited) & 11MFY24 (Provisional). The ratings also take into consideration extensive experience of promoters in the industry along with long standing relationship with reputed clientele and geographically and application wise diversified revenue stream. The ratings are however, constrained primarily on account of moderate scale of operations along with highly working capital-intensive nature of operations during the year. Further, the ratings also remain constrained due to susceptibility of profit margins to foreign exchange and raw material price fluctuation risk. The ability of DVL to improve in its scale of operations, profitability, capital structure and debt coverage indicators with effective working capital management will be the key rating sensitivities.

## Rating sensitivities: Factors likely to lead to rating actions

### Positive factors

- Improvement in the total operating income beyond Rs. 400 crores with PBILDT margins above 12% on sustained basis
- Improvement in the credit profile marked by achieving return on capital employed (ROCE) above 25% and total outside liabilities (TOL)/tangible net worth (TNW) below 1.5x.

### Negative factors

- Deterioration in the credit metrics and/or deterioration in the liquidity position with overall gearing exceeding 1.25x, all on a sustained basis.
- Decline in the total operating income below Rs.200 crores with PBILDT margin below 8.00%
- Elongation of working capital cycle beyond 200 days.

**Analytical approach:** Standalone

Standalone financials of DVL are considered for analysis.

**Outlook:** Stable

The company will continue to benefit from its presence in domestic and international market along with its clientele diversified across multiple end user industries which lends stability to the revenue stream. The outlook also reflects the strong relations that the company enjoys with its reputed clientele.

## Detailed description of the key rating drivers:

## Key strengths

**Extensive experience of promoters with long standing relationship with reputed clientele**

DVL was established under stewardship of Mr. K.N. Dembla, his brother J.N.Dembla and Mr.Mukund Katagiri who between them possess average industry experience of three decades in valve design and quality control. This along with healthy relationships with customers across various industries, including oil & gas, steel, power, water treatment, and chemicals, both in the domestic and overseas markets, will continue to support the business risk profile.

DVL is engaged in manufacturing of different kind of valves required for varied industrial applications and has long track record of operations i.e. more than three decades and caters to domestic as well as overseas market. Owing to its long-standing presence, the company has established relationship with its customers. Top 5 international customers contributed 24% and 30% of TOI during FY23 and FY22 respectively, while top 5 domestic customers contributed 25% and 12% of TOI during FY23 and FY22 respectively, with no particular client contributing more than 20% of total income from operation.

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

**Geographically diversified revenue stream with presence in both domestic and international market**
DVL has presence in both domestic and international market with its products having application in various industries like oil & gas, petrochemical, water treatment, power, steel, chemicals, pharmaceutical, and food processing. DVL mainly caters to the demand from domestic buyers contributing 62% of total operating income in FY23 and 58% in FY22. Majority of the international sales in FY23 are led by its clients in Asian and South American region.

**Comfortable capital structure and debt protection metrics.**
The capital structure of DVL stood comfortable as marked by an overall gearing of 0.74x as at end March 31, 2023, vis-à-vis 1.14x as at end of previous year. The level of tangible net worth stood moderate at Rs.74.33 crore as on March 31, 2023.The debt protection metrics stood comfortable as marked by total debt to GCA of 3.89 times as on March 31, 2023 as against 5.13 times as on March 31, 2022. The PBILDT interest coverage ratio also stood adequate and stable at 3.88 times in FY23 as against 3.52 times in FY22. During 11MFY24, the interest coverage has improved further and stood at 5.82 times against 3.19 in 11MFY23.

## Key weaknesses

**Moderate scale of operation**
Scale of operations of DVL remains moderate despite long track record of the operations which is observed by total operating income (TOI) of Rs.189.90 crore during FY23 (FY21: Rs.96.72 crore) which has improved with a CAGR of 25% in this period. The improvement in TOI during FY23 was primarily due to increase in domestic and export sales post pandemic which was led by increased demand in oil and gas, power, water treatment, sanitation, pharmaceuticals, distilleries sectors.
During 11MFY24 (Provisional), DVL has registered total operating income of Rs.218.84 crore mainly on account of increase in the order inflow from the domestic market as well as exports on back of traction in the projects in oil and gas and distillery sector.
As on March 2024 DVL's order book position stood at ~Rs.160 crore reflecting short term revenue visibility for Q1FY25. This order book consists of confirmed orders amounting to Rs.120 crore and LOIs of ~Rs.40 crore, reflecting geographically diversified order book position of the company.

**Working capital-intensive nature of operations**
The operating cycle has reduced during FY23 to 154 days from 294 days in FY21 due to improvement in average inventory holding and collection period which were adversely affected during the Covid period. As on 31 March 2023, the gross current asset days stood at 302 days as against creditors of 149 days. The current ratio stood moderate at 1.34 times as on same date.
The management believes that with the additional BG limit of Rs. 10 crores availed recently to provide performance backed guarantees (PBG) to clients, the quantum of receivables withheld as part of retention money with clients, would be released. Additionally, the company is also in discussion with clients to release the receivables earlier than the agreed terms, in lieu of cash discounts.
The company's inventory, totalling Rs. 60 crores as of March 31, 2023, is primarily composed of work in progress (WIP), and raw material accounting for approximately 70% of the total, or Rs. 40 crores. This WIP inventory is a consequence of a multi-stage manufacturing process for valves, with each stage being accompanied by specific internal and third-party checks and tests to ensure that the quality standards specified in all contracts are adhered to.

**Competitive nature of industry**
DVL is a manufacturer of customized valves for a variety of applications. In accordance with company policy, they operate at thinner profit margins to have its presence in several industries and fostering relationships with new customers. Furthermore, a sizable number of both organized and unorganized companies exist in this industry. Since the domestic oil and gas industry is driven by tenders, DVL's profitability margins are impacted in order to secure these contracts. These variables continue to contribute to DVL's modest profitability margins.

## **Liquidity**: Adequate
Liquidity of the company is adequate as marked by healthy gross cash accruals of Rs. 14 crores in FY23 and is expected to generate GCA of Rs. 23 crores in FY24 against term debt obligation of Rs. 6.28 crores in FY24. Gross cash accruals of DVL are expected to improve going forward. Furthermore, group has unencumbered cash & bank balances of Rs. 2.30 crore as on March 31, 2023. The average utilization of working capital borrowings remained almost 79% during the past, while the average utilization of non-fund based remained almost 89% for 12 months period ending February 29, 2024.

## Applicable criteria
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

## About the company and industry

### Industry classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Industrials | Capital Goods | Industrial Manufacturing | Industrial Products |

Incorporated in 1989, Dembla Valves Limited (DVL) is promoted by Mr. Jayprakash Dembla, Mr. Kanaiyalal Dembla, Mr. Mukund Katageri. The company, based Thane near Mumbai, manufactures different types of valves and caters to both domestic and overseas markets.
The company manufactures ball valves, butterfly valves, globe control valves, gate valve, globe valve & check valve which cater to industries like Oil & Gas, petrochemical, water treatment, power, steel, chemicals & pharmaceuticals. The promoters have extensive experience of more than 3 decades, as they have started as a valves repairs and service provider and later established themselves as a customized valve manufacturer of 1,40,000 sq. Ft. working area at Thane.

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | 11M FY24 (P) |
|---|---|---|---|
| Total operating income | 152.86 | 189.90 | 218.84 |
| PBILDT | 19.93 | 23.08 | 28.83 |
| PAT | 12.49 | 11.43 | 16.07 |
| Overall gearing (times) | 1.14 | 0.74 | NA |
| Interest coverage (times) | 3.52 | 3.88 | 5.82 |

A: Audited UA: Unaudited P: Provisional NA: Not Available; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** India Ratings, has conducted the review on the basis of best available information and has classified DVL as "Not cooperating" vide its press release dated January 10, 2023, due to lack of adequate information shared by the client to conduct the rating process.

**Any other information:** Not Applicable

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

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

**Complexity level of various instruments rated**: Annexure-4

**Lender details**: Annexure-5

### Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT/ ST-Cash Credit | | - | - | - | 25.00 | CARE BBB-; Stable / CARE A3 |

**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 2023-2024 | 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 |
| 1 | Fund-based - LT-Cash Credit | LT | - | - | - | 1)CARE BB-; Stable; ISSUER NOT COOPERATING* (21-Jun-22)<br><br>2)Withdrawn (21-Jun-22) | 1)CARE BB; Stable; ISSUER NOT COOPERATING* (28-Jun-21) | 1)CARE BB+; Stable; ISSUER NOT COOPERATING* (02-Apr-20) |
| 2 | Fund-based - ST-Bill Discounting/ Bills Purchasing | ST | - | - | - | 1)Withdrawn (21-Jun-22)<br><br>2)CARE A4; ISSUER NOT COOPERATING* (21-Jun-22) | 1)CARE A4; ISSUER NOT COOPERATING* (28-Jun-21) | 1)CARE A4+; ISSUER NOT COOPERATING* (02-Apr-20) |
| 3 | Fund-based - ST-EPC/PSC | ST | - | - | - | 1)CARE A4; ISSUER NOT COOPERATING* (21-Jun-22)<br><br>2)Withdrawn (21-Jun-22) | 1)CARE A4; ISSUER NOT COOPERATING* (28-Jun-21) | 1)CARE A4+; ISSUER NOT COOPERATING* (02-Apr-20) |
| 4 | Non-fund-based - ST-BG/LC | ST | - | - | - | 1)Withdrawn (21-Jun-22)<br><br>2)CARE A4; ISSUER NOT COOPERATING* (21-Jun-22) | 1)CARE A4; ISSUER NOT COOPERATING* (28-Jun-21) | 1)CARE A4+; ISSUER NOT COOPERATING* (02-Apr-20) |
| 5 | Fund-based - LT/ ST-Cash Credit | LT/ST | 25.00 | CARE BBB-; Stable / CARE A3 | | | | |

*Issuer did not cooperate; based on best available information.
LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

## Annexure-4: Complexity level of the various instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT/ ST-Cash Credit | Simple |

## Annexure-5: Lender details

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

**Note on the 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.

**Contact us**


| Media Contact | Analytical Contacts |
|---|---|
| Mradul Mishra<br>Director<br>**CARE Ratings Limited**<br>Phone: +91-22-6754 3596<br>E-mail: mradul.mishra@careedge.in | Sudarshan Shreenivas<br>Director<br>**CARE Ratings Limited**<br>Phone: 912267543566<br>E-mail: sudarshan.shreenivas@careedge.in |
| **Relationship Contact**<br><br>Ankur Sachdeva<br>Senior Director<br>**CARE Ratings Limited**<br>Phone: 91 22 6754 3444<br>E-mail: Ankur.sachdeva@careedge.in | Arunava Paul<br>Associate Director<br>**CARE Ratings Limited**<br>Phone: 912267543667<br>E-mail: arunava.paul@careedge.in<br><br>Renuka Mahimkar<br>Rating Analyst<br>**CARE Ratings Limited**<br>E-mail: Renuka.Mahimkar@careedge.in |


**About us:**
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



**For the detailed Rationale Report and subscription information, please visit www.careedge.in**