

## Hawa Vales (India) Private Limited

April 05, 2019

### Ratings

| Facilities                             | Amount (Rs. crore)   | Ratings <sup>1</sup>   | Rating Action                 |
|--|--|--|-------------------------------|
| Long-term Bank Facilities              | 64.67  | <b>CARE BBB-; Negative (Triple B Minus; Outlook: Negative)</b>                     | Revised from CARE BBB; Stable |
| Short-term Bank Facilities             | 24.00<br>(Enhanced from Rs. 15.00 crore)   | <b>CARE A3 (A Three)</b>   | Reaffirmed                    |
| Long-term / Short-term Bank Facilities | 100.00<br>(Enhanced from Rs. 69.00 crore)  | <b>CARE BBB-; Negative / CARE A3 (Triple B Minus; Outlook: Negative / A Three)</b> | Revised from CARE BBB; Stable |
| <b>Total Facilities</b>                | <b>188.67</b><br><b>(Rupees One Hundred Eighty Eight Crore and Sixty Seven Lakhs only)</b> |  |                               |

<sup>1</sup>Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Hawa Valves (India) Private Limited is on account of decline in scale of operation and deterioration in financial profile marked by declining profit margins and deterioration in capital structure and debt coverage indicators during FY18 (*refers to period from April 01 to March 31*). The revision also takes into account significant increase in receivables and inventory resulting into higher dependence of working capital facilities.

The ratings continue to derive strength from the established track record of the promoters, long-term relationships with its clientele and comfortable order-book position providing short to medium term revenue visibility. The ability of the company to successfully execute its orders without any time and cost over runs along with timely recovery of the receivables and reduction in inventory holding remains the key credit monitorables.

### Outlook: Negative

The negative outlook on the rating reflects the continued stretched operating cycle, resulting into higher utilization of the working capital limits. The outlook may be revised to 'Stable' if the liquidity profile of the company is improved.

### Detailed description of the key rating drivers:

#### Key Rating Weaknesses

##### Experienced Promoters

The company is spearheaded by Mr. Javed Hawa, having more than two decades of experience in the valves industry and Mrs. Reshma Hawa who has more than a decade of experience in the industry. The promoters look after the overall operations of the company. Over the track record of more than sixteen years, the company has established relationship with its customers, suppliers and other stake holders in the industry.

##### Established relationship with the reputed client base

The company continues to cater to the needs of reputed clients operating across oil & gas, petrochemical and engineering industry and other players including EPC (Engineering, Procurement and Construction) clients. Moreover, significant comfort can be derived as the counterparty risk gets mitigated to an extent on the back of healthy credit profile of reputed clientele.

##### Moderate scale of operations with modest order book position

During FY18, the total operating income (TOI) of the company stood at Rs. 189.70 crore vis-à-vis Rs.216.08 crore in FY17, while net margin stood at Rs. 6.43 crore in FY18 vis-à-vis Rs. 16.01 crore in FY17. Furthermore, the company has posted TOI of around Rs. 145.23 crore with net margins of Rs. 5.74 crore during 10M-FY19. Furthermore, the company has an order book of Rs. 242.03 crore as on March 25, 2019 signifying short-term revenue visibility of the company.

##### Moderation in profit margins

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

The operating profit margins remained stable at 18.49% during FY18 as compared to 18.70% during FY17 and 18.95% during FY16. However, net profit margins have declined significantly from 7.41% during FY17 to 3.39% during FY18, owing to increase in interest expenses albeit decline in operating income in FY18.

#### Key Rating Weaknesses:

##### ***Deterioration in capital structure and debt coverage indicators***

The capital structure of the company has deteriorated during FY18 marked by decline in overall gearing, interest coverage ratio and debt coverage indicators. The overall gearing of the company stood at 2.01 times as on March 31, 2018 owing to increase in dependence on working capital borrowings and fresh term loans availed to fund the capex. However, the Total Debt/GCA (gross cash accruals) deteriorated to 10.07 times during FY18 as compared to 5.68 times during the previous year. Furthermore, the interest coverage ratio declined compared to previous year although stood comfortable at 2.32 times during FY18.

##### ***Operations in the competitive and fragmented valve industry***

The company operates in a highly competitive and fragmented valve industry. The company witnesses intense competition from both the other organized and unorganized players. This fragmented and highly competitive industry results into price competition thereby affecting the profit margins of the companies operating in the industry.

#### Liquidity

##### ***Working capital intensive nature of operations***

The operations continue to be working capital intensive in nature, marked by huge amount of funds blocked in debtors and inventory. This is further evident by average working capital utilisation of 91% during the last 12-months ended February 2019. The operating cycle has worsened significantly during FY18 compared to previous year, attributed mainly to higher inventory period thereby impacting the creditors' period to an extent.

In terms of liquidity position, the current ratio stood at 1.20 times at the end of FY18 with cash and bank balances of Rs. 1.60 crore. The above mentioned factors signify tight liquidity position of the company.

**Analytical approach:** Standalone

#### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology-Manufacturing Companies](#)

#### About the Company

Incorporated in the year 2001, Hawa Valves (India) Private Limited is engaged in manufacturing of industrial valves of various international standards. These valves are used in oil & gas, petrochemical and other engineering industry. Over the years, the company has expanded its presence from being a core manufacturer to end-to-end service provider; including conception, detailed drawing and manufacturing of the customized valves. The company is a preferred supplier for various reputed and renowned oil and gas companies. The company is primarily an export oriented company.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|------------------------------|----------|----------|
| Total operating income       | 216.08   | 189.70   |
| PBILD                        | 40.40    | 35.07    |
| PAT                          | 16.01    | 6.43     |
| Overall gearing (times)      | 1.84     | 2.01     |
| Interest coverage (times)    | 3.01     | 2.32     |

A – Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Analyst Contact:**

Name: Mr. Hitesh M Avachat

Tel: 022 6754 3510

Email: [hitesh.avachat@careratings.com](mailto:hitesh.avachat@careratings.com)

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**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument         | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|--------------------------------|------------------|-------------|---------------|-------------------------------|---|
| Fund-based - LT-Term Loan      | -                | -           | -             | 14.67                         | CARE BBB-; Negative                       |
| Fund-based - LT-Cash Credit    | -                | -           | -             | 50.00                         | CARE BBB-; Negative                       |
| Non-fund-based - LT/ ST-BG/LC  | -                | -           | -             | 100.00                        | CARE BBB-; Negative / CARE A3             |
| Fund-based - ST-Packing Credit | -                | -           | -             | 24.00                         | CARE A3                                   |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings |                                |                               | Rating history                            |   |   |   |
|---------|--|-----------------|--------------------------------|-------------------------------|---|---|---|---|
|         |  | Type            | Amount Outstanding (Rs. crore) | Rating                        | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1.      | Fund-based - LT-Term Loan              | LT              | 14.67                          | CARE BBB-; Negative           | 1)CARE BBB; Stable (06-Apr-18)            | 1)CARE BBB; Stable (20-Apr-17)            | 1)CARE BBB (04-Apr-16)                    | 1)CARE BBB (09-Apr-15)                    |
| 2.      | Fund-based - LT-Cash Credit            | LT              | 50.00                          | CARE BBB-; Negative           | 1)CARE BBB; Stable (06-Apr-18)            | 1)CARE BBB; Stable (20-Apr-17)            | 1)CARE BBB (04-Apr-16)                    | 1)CARE BBB (09-Apr-15)                    |
| 3.      | Non-fund-based - LT/ ST-BG/LC          | LT/ST           | 100.00                         | CARE BBB-; Negative / CARE A3 | 1)CARE A3 (06-Apr-18)                     | 1)CARE A3 (20-Apr-17)                     | 1)CARE A3 (04-Apr-16)                     | 1)CARE A3 (09-Apr-15)                     |
| 4.      | Fund-based - LT-Bank Overdraft         | LT              | -                              | -                             | -   | -   | -   | 1)Withdrawn (09-Apr-15)                   |
| 5.      | Fund-based - ST-Packing Credit         | ST              | 24.00                          | CARE A3                       | 1)CARE A3 (06-Apr-18)                     | 1)CARE A3 (20-Apr-17)                     | 1)CARE A3 (04-Apr-16)                     | 1)CARE A3 (09-Apr-15)                     |

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
 Cell: + 91 98190 09839  
 E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Ms. Rashmi Narvankar**  
 Cell: + 91 99675 70636  
 E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Ankur Sachdeva**  
 Cell: + 91 98196 98985  
 E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Mr. Saikat Roy**  
 Cell: + 91 98209 98779  
 E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)

**AHMEDABAD**

**Mr. Deepak Prajapati**  
 32, Titanium, Prahaladnagar Corporate Road,  
 Satellite, Ahmedabad - 380 015  
 Cell: +91-9099028864  
 Tel: +91-79-4026 5656  
 E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
 No. 30, M.G. Road, Bangalore - 560 001.  
 Cell: +91 98407 54521  
 Tel: +91-80-4115 0445, 4165 4529  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
 SCF No. 54-55,  
 First Floor, Phase 11,  
 Sector 65, Mohali - 160062  
 Chandigarh  
 Cell: +91 85111-53511/99251-42264  
 Tel: +91- 0172-490-4000/01  
 Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
 Unit No. O-509/C, Spencer Plaza, 5th Floor,  
 No. 769, Anna Salai, Chennai - 600 002.  
 Cell: +91 98407 54521  
 Tel: +91-44-2849 7812 / 0811  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
 T-3, 3rd Floor, Manchester Square  
 Puliakulam Road, Coimbatore - 641 037.  
 Tel: +91-422-4332399 / 4502399  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**HYDERABAD**

**Mr. Ramesh Bob**  
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
 Hyderabad - 500 029.  
 Cell : + 91 90520 00521  
 Tel: +91-40-4010 2030  
 E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)

**JAIPUR**

**Mr. Nikhil Soni**  
 304, Pashupati Akshat Heights, Plot No. D-91,  
 Madho Singh Road, Near Collectorate Circle,  
 Bani Park, Jaipur - 302 016.  
 Cell: +91 – 95490 33222  
 Tel: +91-141-402 0213 / 14  
 E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
 10A, Shakespeare Sarani, Kolkata - 700 071.  
 Cell: +91-98319 67110  
 Tel: +91-33- 4018 1600  
 E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
 13th Floor, E-1 Block, Videocon Tower,  
 Jhandewalan Extension, New Delhi - 110 055.  
 Cell: +91-98117 45677  
 Tel: +91-11-4533 3200  
 E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
 9th Floor, Pride Kumar Senate,  
 Plot No. 970, Bhamburda, Senapati Bapat Road,  
 Shivaji Nagar, Pune - 411 015.  
 Cell: +91-98361 07331  
 Tel: +91-20- 4000 9000  
 E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

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