Hawa Valves (India) Private Limited

April 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	64.67	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**
Short-term Bank Facilities	24.00	**CARE A4+ (A Four Plus)**	**Revised from CARE A3 (A Three)**
Long-term / Short-term Bank Facilities	100.00	**CARE BB+; Stable / CARE A4+ (Double B Plus; Outlook: Stable / A Four Plus)**	**Revised from CARE BBB-; Negative / CARE A3 (Triple B Minus; Outlook: Negative / A Three)**
Total	**188.67 (Rupees One Hundred Eighty Eight Crore and Sixty Seven Lakhs only)**		

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 profitability margin during FY19 (refers to period from April 01 to March 31) and 9M-FY20 impacting the debt coverage indicators. The revision continues to take into account significant increase in receivables and inventories during the last two-years to FY19 and further during 9M-FY20 resulting into higher dependence on working capital limits.

The ratings continue to derive strength from the established track record of the management in the valve industry, established relationships with its reputed clientele, moderate scale of operations and moderate capital structure albeit decline in debt and interest coverage indicators.

Rating Sensitivities

Positive factors

- *Sustained improvement in operating income 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 from current levels coupled with lower reliance on short-term borrowings*

***Negative* factors**

- *Deterioration in operating income by more than 10% along with decline in operating profitability (at 12.00% and below)*
- *Any debt funded expenditure impacting the overall capital structure as envisaged*
- *Significant decline in operating cycle from current levels coupled with higher reliance on short-term borrowings*

Detailed description of the key rating drivers

Key Rating Weaknesses:

Working capital intensive nature of operations

The operations of the company continue to remain working capital intensive in nature as evident by huge amount of funds blocked in inventories and receivables. This is further evident by utilization of working capital limits to full extent along with additional lines availed by the company at multiple occasions during the last 10-months ended December 2019. The operating cycle continues to remain significantly high at 305 days during FY19 and 317 days during FY18. This is attributable to higher collection and inventory period during the said period. Going forward, the ability of the company to manage its working capital requirements efficiently would be critical from credit perspective.

Decline in profitability margin

The operating margin has declined to 13.50% during FY19 as compared to moderation of profitability margin witnessed during FY18 and FY17 at 18.49% and 18.70%, respectively. Consequently, the net profit margin has declined to 0.67% during FY19 as compared to 3.39% and 7.41% during FY18 and FY17, respectively. The net profit of the company has witnessed a declining trend in recent years on account of increase in interest expenses by way of higher reliance on working capital lines.

Operations in the competitive and fragmented valve industry

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

The company operates in a highly competitive and fragmented valve industry. The company witnesses intense competition from both the organized as well as unorganized players in the industry. This fragmented and highly competitive nature of industry results into price competition thereby affecting the profitability margin of the companies operating in the industry.

Key Rating Strengths

Experience of the management in valve manufacturing industry

The company is led by Mr. Javed Hawa, currently Managing Director, 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. The promoters are ably supported by second and third line of management having relevant experience in the industry.

Established relationship with the reputed clientele

The company continues to cater to the requirement of reputed clientele operating across oil & gas, petrochemical and engineering industries and other players including EPC (Engineering, Procurement and Construction) industry. The company continues to exhibit revenue concentration from oil & gas industry – which is a major end-user of industrial valves. Furthermore, significant comfort can be derived as the counterparty risk gets mitigated to an extent on the back of healthy credit profile of its reputed clientele.

Moderate scale of operations

During FY19, the total operating income of the company stood at Rs. 218.81 crore as compared to Rs. 189.70 crore during previous year. The company continues to cater on the back of repeat orders received from its existing clientele. The latest order book stood moderate providing short to medium term revenue visibility.

Moderate capital structure albeit decline in debt and interest coverage indicators

The capital structure remains moderate with improvement in overall gearing ratio from 2.01 times as on March 31, 2018 to 1.41 times as on March 31, 2019, mainly on account of infusion of funds in the form of equity to the tune of Rs. 40.00 crore during FY19. The overall gearing is envisaged to improve with further infusion of Rs. 18.00 crore during 9M-FY20. However, the interest coverage and debt coverage indicators continue to decline year on year with decline in profitability level. The Total Debt / Gross Cash Accruals (TD/GCA) ratio deteriorated to 13.04 times as on March 31, 2019 as compared to 10.07 times as on March 31, 2018, mainly on account of lower accruals during FY19 coupled with the increased reliance on working capital limits to support the operations.

Liquidity Analysis

Stretched – Liquidity is marked by low accruals against its repayment obligations during FY20 and FY21. The cash and cash equivalent stood at Rs. 0.68 crore as on December 31, 2019. The working capital lines remains utilized to the full extent during the last 10-months ended December 2019. The company has also availed additional limits at multiple occasions during the period. Hence, the liquidity remains stretched with very limited scope to meet any incremental working capital requirements in near future.

Analytical approach: Standalone

Applicable Criteria

[Criteria for assigning Rating Outlook and Credit Watch]
[CARE's Policy on Default Recognition]
[Criteria on Short Term Instruments]
[Rating Methodology – Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

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 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. 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)	FY18 (A)	FY19 (A)
Total operating income	189.70	218.81
PBILDT	35.07	29.53
PAT	6.43	1.46

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Overall gearing (times)	2.01	1.41
Interest coverage (times)	2.32	1.56

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

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 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+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	14.67	CARE BB+; Stable	1)CARE BBB-; Negative (05-Apr-19)	1)CARE BBB; Stable (06-Apr-18)	1)CARE BBB; Stable (20-Apr-17)	1)CARE BBB (04-Apr-16)
2.	Fund-based - LT-Cash Credit	LT	50.00	CARE BB+; Stable	1)CARE BBB-; Negative (05-Apr-19)	1)CARE BBB; Stable (06-Apr-18)	1)CARE BBB; Stable (20-Apr-17)	1)CARE BBB (04-Apr-16)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	100.00	CARE BB+; Stable / CARE A4+	1)CARE BBB-; Negative / CARE A3 (05-Apr-19)	1)CARE A3 (06-Apr-18)	1)CARE A3 (20-Apr-17)	1)CARE A3 (04-Apr-16)
4.	Fund-based - ST-PC/Bill Discounting	ST	24.00	CARE A4+	1)CARE A3 (05-Apr-19)	1)CARE A3 (06-Apr-18)	1)CARE A3 (20-Apr-17)	1)CARE A3 (04-Apr-16)

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact

Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact

Group Head Name: Mr. Hitesh M. Avachat
Group Head Contact no.: +91-22-6754 3510
Group Head Email ID: hitesh.avachat@careratings.com

Relationship Contact

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

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