January 29, 2024

Ashirvad Pipes Private Limited : Ratings reaffirmed

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	1,300.0	1,250.0	[ICRA]AA(Stable)/[ICRA]A1+ reaffirmed
Long term/Short term Unallocated limits	-	50.0	[ICRA]AA(Stable)/[ICRA]A1+ reaffirmed
Total	**1,300.0**	**1,300.0**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings of Ashirvad Pipes Private Limited (APPL) factors in its established market position and strong brand presence in the domestic CPVC and UPVC pipes and fitting industry, supported by its expansive product profile and a wide distribution network. The ratings also derive support from APPL's healthy financial profile, characterised by limited dependence on debt which is majorly working capital in nature. 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 intense competition in the domestic PVC pipes segment from both the organised and unorganised segments. The ratings are further tempered by the vulnerability of APPL's profitability to the variation in raw material prices and foreign currency fluctuation risk on imported raw materials. As observed in FY2023, the OPM moderated to 8.1 % from 18.0% in FY2022 owing to inventory losses from a sharp fall in raw material prices. Further, the OPM was impacted by higher incentives, 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. For FY2023, APPL has shared the provisional financials. ICRA will review the profile upon receipt of the audited financials for deviation from the provisional figures, if any.

The ratings further take into consideration the geographical concentration risk with the top three states accounting for ~41% of its revenue in FY2023. 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 group level mitigates the risk to a certain extent. Additionally, the company has been sourcing CPVC from other overseas suppliers over the last few years. ICRA notes that the company is undertaking capex to set up two manufacturing facilities over the next two years with a combined outlay of ~Rs. 1,000 crore, which is expected to be funded majorly from internal accruals. The capex will enable the company to extend its geographical reach.

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 established market position, strong brand presence, favourable demand outlook for its products, a healthy financial profile and the operational and managerial support from the Aliaxis Group.

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 pipes and fitting industry, backed by its wide 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, and the industrial and infrastructure sectors. 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.

Healthy financial profile – APPL's financial profile has been healthy, characterised by a conservative capital structure with a gearing of 0.3 times as on March 31, 2023, and nil long-term external debt. Moreover, APPL's coverage indicators are comfortable, reflected in an interest coverage of 7.3 times and NCA/total debt of 37.2% in FY2023, though the same moderated due to subdued operating margins in FY2023. 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 healthy in the medium term. The financial profile would be supported by minimal external long-term debt, a steady revenue growth and recovery in profit margins, driven by favourable demand prospects, besides its expanding 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 in 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. As observed in FY2023, the OPM moderated to 8.1 % from 18.0% in FY2022 owing to inventory losses from a sharp fall in raw material prices.

Dependence on a single supplier for CPVC resin –APPL derives 60% of its revenue from CPVC products wherein the raw material, CVPC compounds, is 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 negotiation of prices at the group level. Additionally, the company has been sourcing CPVC from other overseas suppliers over the last few 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 ~41% to its revenue in FY2023. However, the company is undertaking capex plans to widen 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 working requirement. Further, ICRA expects that the company will be able to undertake its sizeable capex plans with internal accruals.

Rating sensitivities

Positive factors – A sustained revenue growth while maintaining healthy profitability and a strong liquidity position may result in an 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 on a sustained basis may result in 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 and the industrial and infrastructure sectors. 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

PCBL Consolidated	FY2022	FY2023*
Operating income	4,504.2	4,557.7
PAT	515.0	117.0
OPBDIT/OI	18.0%	8.1%
PAT/OI	11.4%	2.6%
Total outside liabilities/Tangible net worth (times)	0.4	0.6
Total debt/OPBDIT (times)	0.1	2.0
Interest coverage (times)	106.9	7.3

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Note: Amount in Rs. crore; All calculations are as per ICRA research; Source: Company data, 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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					January 29, 2024	October 31, 2022	July 27, 2021	-
1	Fund based/Non-fund based	Long-term /Short term	1250.0	-	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+	[ICRA]AA(Stable)/ [ICRA]A1+	-
2	Unallocated	Long-term /Short term	50.0	-	[ICRA]AA(Stable)/ [ICRA]A1+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based/Non-fund based	Simple
Unallocated	Not applicable

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: Click Here

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	1250.0	[ICRA]AA(Stable)/[ICRA]A1+
NA	**Unallocated limits**	NA	NA	NA	50.0	[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.

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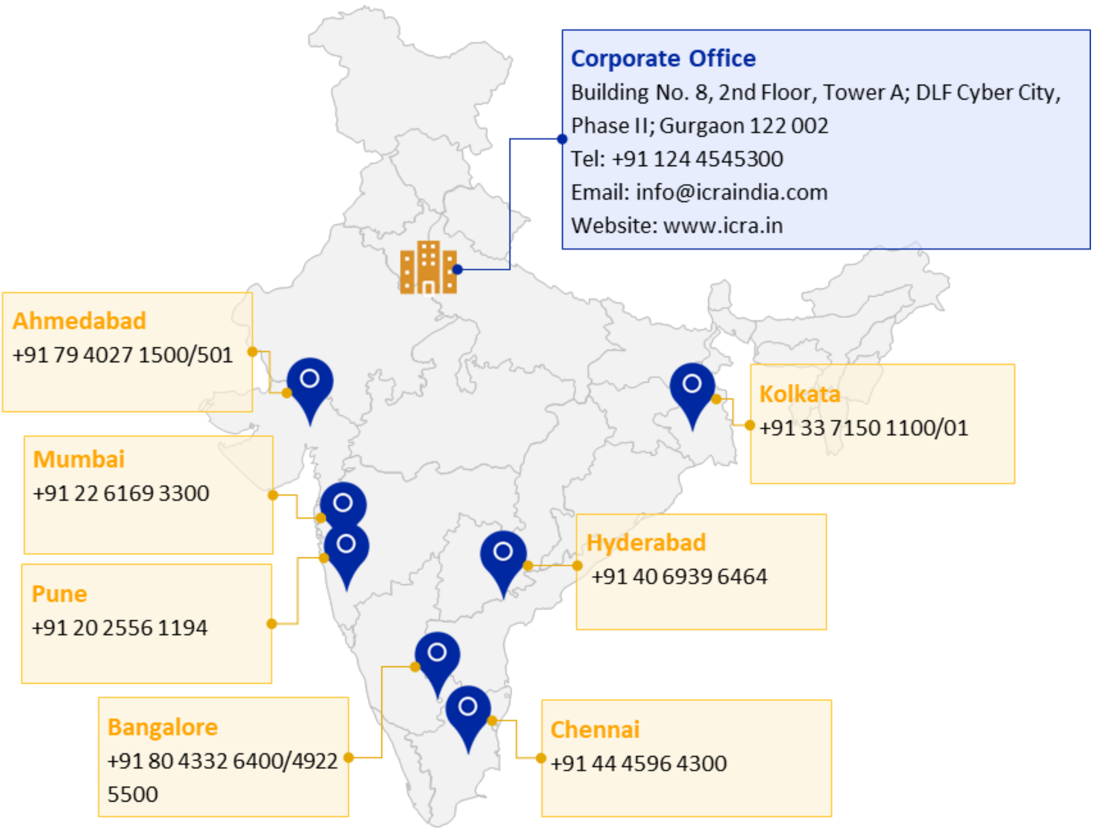

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