Asian Tubes Private Limited

March 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	95.00	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable/ A One)	Revised from CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable / A Two Plus)
Short Term Bank Facilities	15.00	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Total Bank Facilities	**110.00 (Rs. One Hundred Ten Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

For arriving at the ratings for the bank facilities of Asian Tubes Private Limited (ATPL), CARE has taken a combined analytical view of ATPL and its group entity - Asian Mills Private Limited (AMPL), together referred to as Asian Steel Group (ASG), on account of their common management, presence of both entities in similar line of business with a common brand name as well as distribution network.

The revision in ratings of ATPL is on account of healthy growth in its scale of operations in FY21 (refers to the period April 1 to March 31) as well as H1FY22 along with strengthening of debt coverage indicators, comfortable capital structure and adequate liquidity with significant cushion available in the form of free liquid investments.

The ratings continue to derive strength from ASG's experienced and resourceful promoters in the steel pipes industry, established track record of operations of more than three decades with good presence in Gujarat, diversified clientele, and established distribution network.

The ratings are, however, constrained by ASG's moderate profitability and concentrated geographical presence, susceptibility of its profitability to raw material price volatility and presence in a highly competitive steel pipe industry which albeit has good growth prospects. The ratings are further constrained due to loans & advances (L&A) extended by ASG to its group companies as well as third parties, which formed ~17% of its net worth as on March 31, 2021.

Rating Sensitivities

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

- Significant volume-backed growth in its scale of operations with TOI above Rs.1800 crore and return on capital employed (RoCE) of more than 15% on sustained basis.
- Improvement in Total Debt/PBILDT to below 1.00 times and maintenance of adjusted overall gearing below 0.50 times on a sustained basis.
- Recoupment of L&As extended to non-core activities and deploying them for growth of main business.

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

- Significant decline in its scale of operations to below Rs.1300 crore and RoCE falling below 12% on a sustained basis.
- Elongation in its operating cycle to more than 100 days resulting in increased reliance on working capital borrowings, adversely impacting ASG's capital structure and liquidity.
- Substantial decline in free cash and liquid investments or significant amount of L&As being extended to other group companies or third parties beyond envisaged levels, adversely impacting ASG's liquidity.
- Any debt funded capex or unrelated diversification, resulting in deterioration in its capital structure (overall gearing) to more than 0.7x.

Detailed description of the key rating drivers

Key Rating Strengths

Healthy growth in scale of operations albeit moderate profitability: During FY21, ASG reported healthy 18% y-o-y growth in its scale of operations with total operating income (TOI) of Rs.1,101 crore (Rs.931 crore in FY20) backed by increase in sales realization of all its products while sales volume remained largely stable owing to some impact on demand due to covid-19 pandemic. Operating profit (PBILDT) margin almost doubled to 12.08% in FY21 from 6.61% in FY20 due to higher spread available between sales realization and raw material cost owing to supply disruptions caused by covid pandemic, increase in steel consumption mainly in rural regions on the back of good monsoon and government spending on infrastructure post Q1FY21 and tapering of RM cost from Q2FY21 onwards. This resulted in significant improvement in PBILDT / tonne to Rs.6,702 in FY21, as against Rs.3,072 in FY20.

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

Furthermore, with good demand witnessed in the current year as well, ASG reported TOI of Rs.867 crore in H1FY22. PBILDT margin however normalized to 5.21% during the period due to increase in raw material prices, stable end-product prices, and higher proportion of trading income.

Comfortable capital structure with strengthening of debt coverage indicators in FY21: ASG's capital structure remained comfortable with overall gearing of 0.46x as on FY21 end. The group does not have any external long-term debt. The group has displayed its conservative stance towards availing external debt since past many years and unsecured loans from related parties formed 45% of ASG's total debt as on March 31, 2021. Consequently, its overall gearing continued to remain comfortable in the current year as well at 0.46x as on Sept. 30, 2021.
Debt coverage indicators strengthened in FY21 on the back of higher operating profit as well as cash accruals with PBILDT interest coverage of 10.47x (5.55x in FY20) and total debt/ PBILDT of 1.30x (1.99x in FY20).

Experienced and resourceful promoters in the steel pipes industry: ASG is promoted by Mr. Omprakash Agrawal and Mr. Bajranglal Agarwal, both of whom possess more than three decades of experience in the steel pipes industry. They actively look after the overall operations of the group and are well-supported by the second and third generation of the family in managing the business operations. Apart from having a good presence in the steel industry, the promoters also have presence in real estate sector through a sister concern, Aaron Infrastructure, as well as through other associate entities in Ahmedabad (Gujarat).

Established track record of operations of more than three decades: ASG has an established track record of operations of over three decades in the steel industry with a good presence in Gujarat. Over the years, group has expanded its production capacity and added new products to cater to the market requirements.
ASG manufactures steel pipes of various diameters along with cold rolled (CR) coils and galvanized plain (GP) sheets. Pipes manufactured by the group find application across industries such as oil & gas, water & sewage, city gas distribution, construction, and mechanical and general engineering purposes, whereas GP sheets are mainly used in manufacturing of agriculture equipment, construction equipment and household appliances. Furthermore, ASG is also setting up a colour coating line for galvanized sheets (a better margin product) which finds application in construction sector. Commercial production for this facility is expected to start from September 2022 and shall be funded from ASG's internal accruals as well as liquid investments.

Established distribution network with a diversified clientele: ASG has an established distribution network comprising of 27 distributors situated mainly in Gujarat with whom it has long-standing relationship. Around 65%-70% of ASG's total sales over the past three years was through this network, while balance sales was directly to end user companies wherein it is a registered supplier. These companies include some reputed players in the area of oil & gas and industrial project consultants.

Key Rating Weaknesses
Susceptibility of profitability to raw material price volatility: The major raw materials for ASG are hot rolled (HR) coils and zinc, prices of which are market driven and exhibit volatility depending on the demand supply scenario. Also, raw material cost constituted ~90% of ASG's total cost of production and hence any volatility in price of raw material shall impact ASG's profitability. Furthermore, ASG needs to maintain adequate inventory of its products to meet demand from distributors and only a small portion of inventory is order backed which is against the tenders awarded to ASG mainly for oil & gas application. This further exposes ASG's profitability to sharp decline in prices which it may not be able to pass on to its customers, though longstanding experience of promoters in the industry is expected to result in better management of this price volatility.

Loans & advances (L&As) extended to group companies as well as third parties: ASG has extended L&As to its sister concerns as well as to other entities and individuals, some of which have presence in real estate sector. Outstanding of such L&As stood at Rs.64.76 crore as on March 31, 2021 and formed ~17% of ASG's net worth as on that date. It increased to Rs.84.32 crore as on December 31, 2021, with the incremental advances extended mainly towards a commercial property. ASG also extended advances to group concern, Narmada Tubes Private Limited (NTPL), which was incorporated in March 2020 for manufacturing of electric resistance welded (ERW) pipes which find application in oil & gas sector, water supply, sewage, and drainage. Commercial production in NTPL commenced from February 2022. Envisaged scale-up of operations of NTPL shall be crucial for generating adequate returns on ASG's investments.
Any significant increase in ASG's exposure towards unrelated businesses/non-core activities by way of investments or extension of L&A towards real estate activities or third parties could adversely impact company's liquidity going forward. Thus, any further material increase in such investments shall be a key rating monitorable.

Presence in a highly competitive steel pipe industry with limited geographical footprint albeit good growth prospects: The steel pipe industry is highly competitive due to presence of various organized and unorganized players and expanding applications of various types of steel pipes. Although, over the years the industry has become more organized with the share of unorganized and smaller players reducing yet the prevalent competition has a bearing on the margins due to fragmentation of the industry. In this backdrop, ASG's operations with limited geographical presence restricts its competitive position to an extent vis-à-vis some of the larger players in the industry who have multi-location plants and geographically widespread distribution network across larger parts of India.

However, demand for steel tubes & pipes is expected to improve going forward with higher levels of economic activities and successful rollout of the vaccination program which facilitated normalization and stimulated economic recovery. There is a diverse requirement for steel pipes and tubes across several industries including, but not limited to, oil and gas, petrochemicals, power and energy, construction, water supply, and sanitation. The government's thrust to improve infrastructure is expected to augur well for industry players.

Liquidity: Adequate
ASG had adequate liquidity with low utilization of its working capital limits, availability of cash balance/ liquid investments with the group and no scheduled external term debt repayments.
ASG's operating cycle remained stable at 75 days in FY21 (77 days in FY20) with inventory holding of around 2 months. ASG manufactures wide range of pipes and tubes of various specifications for which it is required to carry adequate inventory to meet the market demand. Also, ASG buys majority of raw material in bulk as well as on advance or immediate payment basis to avail discount from its suppliers translating into raw material inventory holding of around 1 month with only a nominal creditor period. Furthermore, due to its presence in a competitive industry as well as owing to its long association with its dealers & distributors, ASG provides a credit period of 25 to 30 days. Despite increase in working capital requirement, ASG had positive cash flow from operations of Rs.32.38 crore in FY21 (Rs.97.97 crore in FY20) due to higher profit during FY21.
Average utilization of fund-based working capital limits remained low at ~31% & ~40% for ATPL & AMPL respectively over the past twelve months ended December 2021. Also, ASG had cash balance, fixed deposits, and investment in mutual funds of Rs.160.06 as on September 30, 2021, against which it avails overdraft from time to time for its working capital requirement; however, majority of it remains free providing significant cushion to ASG's liquidity.

Analytical approach: Combined approach of ATPL and its group company, Asian Mills Pvt. Ltd. (AMPL; together referred as ASG), has been considered for analysis, as both companies operate under common management, are engaged in similar line of business of manufacturing steel pipes and have exhibited cash flow fungibility; also, both companies sell their products under the common brand names of the group and share a common distribution network.

Applicable Criteria
Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the Company
Incorporated in January 1985, Ahmedabad (Gujarat) based ATPL is engaged in manufacturing of mild steel black & galvanized electric resistance welded (ERW) pipes, square & rectangular hollow sections, cold rolled (CR) coils and galvanized plain (GP) sheets. ATPL is a part of Asian Steel Group which is promoted jointly by Mr Omprakash Agarwal and his brother Mr Bajranglal Agarwal, along with their family members.
ATPL's group entity, AMPL, was incorporated in March 1993 and is also engaged in manufacturing of mild steel galvanized ERW pipes, API 5L line pipes (which find application in oil & gas industry) and square & rectangular hollow sections. Both the companies sell its products under the common brand names of 'Asian' and 'Narmada'.
ASG had installed capacity of 1,60,000 metric tonnes per annum (MTPA) for pipes, 25,000 MTPA for CR coils and 50,000 MTPA for GP sheets, as on March 31, 2021.
In March 2020, Narmada Tubes Private Limited (NTPL) was incorporated as part of ASG for manufacturing of ERW pipes and its commercial operations commenced from February 2022.

Brief Financials – ASG Combined (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (Prov.)
Total operating income	930.57	1,100.96	865.96
PBILDT	61.51	133.03	45.15
PAT	40.70	89.30	26.56
Overall gearing (times)	0.43	0.46	0.46
Interest coverage (times)	5.55	10.47	8.18

A: Audited; Prov.: Provisional

Brief Financials – ATPL Standalone (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (Prov.)
Total operating income	694.65	932.85	778.01
PBILDT	32.10	93.36	35.05
PAT	19.07	62.13	20.38
Overall gearing (times)	0.63	0.54	0.58
Interest coverage (times)	6.63	13.14	7.93

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

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 for this company: Please refer Annexure-4

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/ST	-	-	-	45.00	CARE A; Stable / CARE A1
Non-fund-based-LT/ST	-	-	-	50.00	CARE A; Stable / CARE A1
Fund-based/Non-fund-based-Short Term	-	-	-	15.00	CARE A1

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based-LT/ST	LT/ST*	45.00	CARE A; Stable / CARE A1	-	1)CARE A-; Stable / CARE A2+ (24-Feb-21)	-	-
2	Non-fund-based-LT/ST	LT/ST*	50.00	CARE A; Stable / CARE A1	-	1)CARE A-; Stable / CARE A2+ (24-Feb-21)	-	-
3	Fund-based/ Non-fund-based-Short Term	ST	15.00	CARE A1	-	1)CARE A2+ (24-Feb-21)	-	-

* Long Term / Short Term

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

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

Sr. No	Name of instrument	Complexity level
1	Fund-based-LT/ST	Simple
2	Fund-based/Non-fund-based-Short Term	Simple
3	Non-fund-based-LT/ST	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 instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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