Scoda Tubes Limited

January 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	11.46 (reduced from 12.00)	**CARE BB-; Stable (Double B Minus; Outlook: Stable)**	Reaffirmed
Short Term Bank Facilities	18.00 (enhanced from 10.00)	**CARE A4 (A Four)**	Reaffirmed
Total	**29.46 (Rs. Twenty-Nine Crore and Forty-Six Lakhs only)**		

Details of facilities in Annexure -1

Detailed Rationale and key rating drivers

The ratings assigned to the bank facilities of Scoda Tubes Limited (STL) continue to remain constrained on account of moderate profitability, moderate capital and debt coverage indicators along with stretched liquidity position during FY20 (Audited, refers to period April 01 to March 31). The ratings, further, continued to remain constrained on account of its presence in highly fragmented and competitive nature of steel industry along with susceptibility of profit margins to volatility in prices of key raw materials and forex fluctuation risk.

The ratings, however, continue to derive strength from healthy and increasing scale of operations during FY20 and its experienced promoters. The ratings, further, takes a note of successful completion of debt-funded capex and commencement of commercial operations from the said capex during July, 2020.

Rating Sensitivities

Positive Factors

- *Sustained growth in Total Operating Income (TOI) with an increase in Gross Cash Accruals (GCA) level by more than 30% on a sustained basis.*
- *Improvement in capital structure marked by below unity overall gearing with an improvement in debt coverage indicators. marked by total debt to GCA (TDGCA) of 8 years or lower along with an overall improvement in liquidity position.*

Negative Factors

- *Decline in total operating income and PBILDT by more than 30% with tightly matched cash accruals vis-a-vis debt repayments.*
- *Deterioration in capital structure led by overall gearing ratio to 3 times or higher with deterioration in debt coverage indicators to 15 years or higher.*

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate profitability

STL's profitability continued to remain moderate and in line with the previous year, as marked by PBILDT margin at 4.23% in FY20 as against 4.80% during FY19. During FY20, PAT margin continued to remain thin at 0.94% although improved marginally from 0.46% during FY19 mainly due to proportionate decrease in the finance cost led by repayment of term loan.

Moderate capital structure

The capital structure of the company deteriorated and remained moderate as marked by an overall gearing of 1.08 times as on March 31, 2020 as against 0.90 times as on March 31, 2019, the deterioration in the overall gearing ratio is due to an increase in the total debt level led by availment of term loan during FY20.

Moderate debt coverage indicators

The debt coverage indicators of STL continued to remain moderate marked by total debt to gross cash accruals (TDGCA) of 12.97 years as on March 31, 2020 as against 12.83 years as on March 31, 2019. The interest coverage ratio continued to remain modest at 1.51 times during FY20 as against 1.46 times during FY19 owing to increase in the PBILDT level during FY20.

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

Presence in highly fragmented and competitive nature of steel industry

The steel tubes and pipes industry is intensely competitive and fragmented marked by the presence of both larger players and numerous smaller players in the unorganized segment. Given the fact that the entry barriers to the industry are low, the players in the industry do not have pricing power and are exposed to competition-induced pressures on profitability. The demand of steel tubes and pipes industry is considered cyclical as it depends upon the capital expenditure plan of major players in the end user industry. Hence, it is susceptible to slowdown in the end-user industries as well as global economic slowdown.

However, diverse application of steel pipes and tubes insulates STL from a downturn in any one particular industry. Further, the fragmented nature of the business limits the company's ability to bargain with its suppliers and customers, but also prevents them from enjoying benefits associated with the economies of scale.

Margins are susceptible to volatility in prices of key raw materials and forex fluctuation risk

STL's main raw materials are Stainless Steel (SS) strips and the prices of the same are highly volatile. Furthermore, the company has not yet entered in any long-term contract with the suppliers with regard to either quantity or price. As STL is planning to procure required material from the large industrial units like Jindal Strip Limited, which may result into lower bargaining power of STL and affects profitability of the company. STL imports material from China and exports to European countries like Belgium, Italy, Germany etc. Also, STL exports part of its products to various countries, which exposes its profit margins to foreign exchange fluctuation risks in absence of active foreign exchange hedging policy. However it mitigates the risk of fluctuation upto a certain extent due to presence of natural hedge.

Key Rating Strengths

Experienced promoters

STL was promoted by Mr. Dhanraj Khatri and Mr. Mahesh Patel having an experience of more than a decade in steel industry. Moreover the company is now managed by Mr. Jagrut Patel since 2016 having five years of experience in same line of business along with his experience in construction industry. He handles overall operations of the company. The overall management of the company is competent in their respective areas of operation and is supported by other directors through their expertise.

Healthy and increasing scale of operations coupled

The scale of operations of STL as marked by TOI has been growing at a Compounded Annual Growth Rate (CAGR) of ~51% during past 3 years ending FY20 supported by consistent demand from existing customers and addition of new customers in portfolio. During FY20, STL has registered healthy TOI of Rs.109.00 crore, an increase of ~29% on a y-o-y basis. Exports contributed ~12% of the TOI in FY20 against ~17% in FY19.

Furthermore, as on December 30, 2020, STL has an order book position amounting to ~Rs.30.00 crore which is expected to be executed within next 2-3 months.

Successful completion of debt funded capex

STL has successfully completed expansion project of Rs.6.00 crore for an increase in installed capacity from 250 Metric Ton Per Month (MTPM) to 400 MTPM, while the operations from the said project have commenced from July, 2020. Around Rs.5.51 crore of project was completed till March, 2020, while some ancillary work was pending.

The total cost of project expended towards construction of shed, civil work, purchase of new plant and machineries and legal charges etc. remained at Rs.6.00 crore (as against earlier expected at Rs.4.00 crore) which was funded through term loan from bank of Rs.2.00 crore and balance through unsecured loans from directors. The operations from the said project commenced from July, 2020.

Impact of COVID-19 on business operations of STL

STL is into manufacturing of stainless steel pipes and tubes which is used in agricultural industry, engineering and capital goods industry. Being into the production of non-essential product, STL faced decline in the demand during Q1FY21.

Also, the operations were halted from March 21, 2020 to April 28, 2020, due to nation-wide lockdown owing to COVID-19 pandemic. After resumption of operations from April 29, 2020, the company was operating with 40% of labour availability, due to reverse migration of workers belonging to U.P. and Bihar. However, from the month of July, 2020 STL has been operating at higher capacity and has been receiving orders from its customers on a regular basis.

Liquidity: Stretched

Liquidity position of STL remained stretched during FY20 marked by elongated working capital cycle which albeit improved from 110 days during FY19 to 95 days during FY20. The improvement in the working capital cycle was owing to decrease in the average collection period from 61 days during FY19 to 46 days during FY20 along with a decrease in average inventory

period. However, the outstanding value of trade receivables and inventory increased as on March 31, 2020 as against March 31, 2019 in tandem with an increase in scale of operations. The current ratio deteriorated marginally however continued to remain moderate at 1.45 times as on March 31, 2020. Average working capital limits utilization remained high at around 95% during past twelve months period ended November, 2020. Net cash flow from operating activities remained moderate at Rs.5.33 crore during FY20 as against negative cash flow during FY19, while cash and bank balance remained moderate at Rs.2.71 crore as on March 31, 2020. However, GCA level remained moderate at Rs.1.57 crore during FY20 as against principal debt repayments of Rs.0.81 crore arising in FY21.
STL has not availed moratorium for term loan and cash credit facility from HDFC bank under COVID-19 relief measures while it has availed moratorium for 3 months from June to August 2020 for loans availed from NBFCs.
Moreover, STL has also availed Guaranteed Emergency Credit Line Scheme (GECL) of Rs.1.99 Crore from HDFC Bank, which is fully disbursed.

Analytical Approach: Standalone

Applicable Criteria
[Criteria on assigning outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology - Manufacturing Companies]
[Liquidity analysis of Non-financial sector entities]
[Criteria for Short Term Instruments]
[Financial ratios – Non-Financial Sector]

About the Company
Scoda Tubes Limited (STL) was promoted by Mr. Dhanraj Khatri and Mr. Mahesh Patel in 2008 as closely held limited company where entity is engaged in manufacturing of stainless steel pipes & stainless steel welded tubes. The company operates from manufacturing facilities located at Kadi (Gujarat) with an installed capacity of manufacturing 400 Tonnes per month (MTPM) as on December 30, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	84.40	109.00
PBILDT	4.05	4.61
PAT	0.39	1.03
Overall gearing (times)*	0.90	1.08
Interest coverage (times)	1.46	1.51

*A: Audited, * Adjusted for unsecured loans considered as quasi-equity*

Till December 29, 2020 (Provisional), the entity has reported TOI of Rs.66.44 crore.

Status of non-cooperation with previous CRA: India Ratings and Research Private Limited has put ratings assigned to the bank facilities of STL in to 'Non Cooperation' vide press release dated September 27, 2019 on account of non-cooperation by STL with India Rating's efforts to undertake a review of the ratings outstanding.

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-Cash Credit	-	-	-	10.00	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	1.00	CARE A4
Non-fund-based - ST-Letter of credit	-	-	-	11.00	CARE A4
Non-fund-based - ST-Bills Discounting / Bills Purchasing	-	-	-	5.00	CARE A4
Fund-based - ST-Packing Credit in Foreign Currency	-	-	-	1.00	CARE A4
Fund-based - LT-Term Loan	-	-	August-2023	1.46	CARE BB-; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BB-; Stable	-	1)CARE BB-; Stable (16-Oct-19)	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A4	-	1)CARE A4 (16-Oct-19)	-	-
3.	Non-fund-based - ST-Letter of credit	ST	11.00	CARE A4	-	1)CARE A4 (16-Oct-19)	-	-
4.	Non-fund-based - ST-Bills Discounting / Bills Purchasing	ST	5.00	CARE A4	-	1)CARE A4 (16-Oct-19)	-	-
5.	Fund-based - ST-Packing Credit in Foreign Currency	ST	1.00	CARE A4	-	1)CARE A4 (16-Oct-19)	-	-
6.	Fund-based - LT-Term Loan	LT	1.46	CARE BB-; Stable	-	1)CARE BB-; Stable (16-Oct-19)	-	-

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-Packing Credit in Foreign Currency	Simple
4.	Non-fund-based - ST-Bank Guarantees	Simple
5.	Non-fund-based - ST-Bills Discounting / Bills Purchasing	Simple
6.	Non-fund-based - ST-Letter of credit	Simple

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.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over nearly two decades; it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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