Vibhor Steel Tubes Private Limited

February 16, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	14.35 (Reduced from 17.74)	CARE BBB; Positive	Reaffirmed
Long Term / Short Term Bank Facilities	37.50	CARE BBB; Positive / CARE A3+	Revised from CARE BBB; Positive / CARE A3 (Triple B; Outlook: Positive / A Three)
Short Term Bank Facilities	98.00	CARE A3+	Revised from CARE A3 (A Three)

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the short-term bank facilities of Vibhor Steel Tubes Private Limited (VSTPL) is on account of improvement in the liquidity position characterized by improved cash accruals in FY22 (refers to April 1 to March 31) and 10MFY23 (refers to April 1 to January 31) and improved operating cycle of the company.

The ratings continue to derive strength from its long track record of operations along with extensive experience of the promoters in the manufacturing of Electric Resistance Welded (ERW) and Galvanised pipes and its fixed off-take arrangement with Jindal Pipes Limited (JPL). The aforementioned rating strengths are partially offset by the customer concentration risk with JPL contributing about 90% of the total operating income (TOI), moderate scale of operations, and moderate solvency position. The ratings further continue to remain constrained by its presence in a highly fragmented and competitive ERW pipe manufacturing business with low entry barriers, thereby operating at low profitability margins.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in operating margin above 5% and Return on capital employed (RoCE) of more than 18% on sustained basis
- Sustained improvement in the debt coverage indicators with PBILDT interest coverage above 5.5x and total debt to gross cash accruals lower than 3x

Negative factors

- Decline in revenue and profitability, leading to lower than envisaged cash accruals
- Any un-envisaged debt funded capital expenditure or enhancement in limits leading to sustained deterioration in overall gearing beyond 2x
- Sustained deterioration in total debt to gross cash accruals (TDGCA) beyond 7x
- Non- renewal of/ unfavourable changes in the terms of MoU with JPL

Analytical approach: Standalone

Outlook: Positive

The positive outlook reflects CARE's expectation of further growth in scale of operations coupled with improvement in capacity utilisation and PBILDT margins resulting in higher cash accruals. The outlook may be revised to 'Stable' if the company is unable to achieve the envisaged revenue and/or profitability, going forward.

Key strengths

Experienced promoters: The promoters of the company Mr. Vijay Kaushik and Mr. Vibhor Kaushik have an experience of over a decade in the steel pipe industry. Mr. Vibhor Kaushik is also an Electrical engineer graduated from USA. The promoters are backed by an experienced team who currently head various divisions at VSTPL. The promoters have an established and longstanding relation with JPL. The same is expected to continue to derive benefits to the company.

Association with JPL backed by a fixed off-take arrangement: The company has signed a memorandum of understanding (MoU) with JPL for a period of 6 years ending April, 2023, which assures minimum off take arrangement of 100,000 Metric Tons (MTs) for a year and compensates VSTPL at a rate of Rs.2,000/MT for any shortfall and also takes care of VSTPL's major manufacturing costs. Given VSTPL's long association with JPL and track record, there's low likelihood of the MoU not getting

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

renewed post April 2023. Nevertheless, timely renewal of the MoU without modifications to existing terms and conditions is critical from credit rating perspective.

Eligibility for subsidy: The company has set up its new facility in the state of Telangana and is eligible for an investment subsidy on the capital expenditure done on plants and machinery, stamp duty, power tariff and SGST. The company has applied for the said subsidies and the preliminary government inspections have been completed. The company is to receive the grant by March- April 2023 amounting to Rs. 2.51 crore.

Key weaknesses

Customer concentration risk: VSTPL derived approximately 90% of revenues from JPL during the last three years ending FY22. During FY22, the quantity sold to JPL was more than the minimum offtake. JPL has a network of dealers across India and sells pipes under the brand, "Jindal Star". Higher dependence on a single customer exposes the company to customer concentration risk, which is partly mitigated by minimum off-take clause. Other customers of the company include companies Ramsteel Tubes Limited, De Wit Bouwmachines B.V, Maharashtra Seamless Limited, Macro Metal Handelsgesellschaft MBH etc. Further, the company derived ~52% of revenue from the state of Maharashtra and ~48% from Telangana during FY22 and 8MFY23. In addition to domestic sales the company also exports ~3.5% to 4.5% of the TOI.

Growing albeit moderate scale of operations: The TOI of the company saw a Y-o-Y growth rate of ~60% and stood at Rs. 823.73 crore in FY22 (Audited) as against Rs.516.63 crore in FY21 (Audited). The growth is majorly driven by increase in sales realisation. The TOI continued to grow further and the same stood at Rs. 929.01 crore during 10MFY23 mainly on account of improvement in capacity utilisation to ~72%, increase in sales volume & realisations. GCA improved and continues to remain moderate at Rs. 18.41 crore in FY22. The scale of operations remains moderate, which restricts the company to reap the benefits of economies of scale.

Moderate capital structure and debt protection indicators: The total debt profile of the company largely consists of working capital borrowings, term loans, LC backed creditors, and unsecured loans (USL), as against a tangible net-worth base of Rs.80.96 crore (including subordinated USL of Rs.6 crore) as on March 31, 2022. The capital structure of the company though deteriorated to 1.53x as on March 31, 2022, continues to remain moderate. The debt level has increased as on March 31, 2022, due to term loan and higher working capital utilisation to support growth in revenue. The interest coverage has improved and stood at 3.45x as at the end of FY22 (Audited, FY refers to the period April 01 to March 31) and 5.72x during 10MFY23 (Unaudited; refers to period April 01 to January 31). The total debt/GCA though improved, stood high at 6.73x as at the end of FY22. Going forward, the capital structure is likely to remain moderate, largely driven by working capital borrowings and absence of debt funded capex.

Low-capacity utilisation restricting operating leverages and resulting in low profitability margins: VSTPL operates two units at Sukheli, Maharashtra (installed capacity 125000 MT) and Mehboob Nagar, Telegana (installed capacity of 96000 MT). The average capacity utilisation of the cumulative capacity remains low and stood in the range of 48-52% during last three years ended FY22, which improved to ~72% during 10MFY23, restricting the company to reap the benefits of operating leverages. The PBILDT margin declined marginally by 22 bps to 3.65% in FY22 as against 3.87% in FY21. However, PAT margin improved to 1.49% in FY22 as against 0.56% in FY21. The PBILDT & PAT margin improved to 4.51% and 2.43% in 10MFY23. Further, the company is exposed to risk of raw material price fluctuation as it is unable to fully pass on the fluctuations to the end user. The ability of the company to improve per ton profitability with optimal utilisation of its capacities will be a key rating monitorable.

Presence of the company in a fragmented and competitive industry: The company operates in the ERW pipe manufacturing industry which is highly fragmented in nature with presence of a number of unorganized players. Being operating in the fragmented industry with low entry barriers restricts the bargaining power against suppliers and customers, resulting in lower profitability.

Liquidity: Adequate

Liquidity of VSTPL is characterized by a sufficient cushion in accruals vis-a-vis repayment obligations. The GCA is expected to be in the range of Rs. 25-32 crore in FY23 & FY24 as against the repayment obligation of Rs. 2.76 crore in FY23 and Rs.4 crore in FY24. Free cash balance stood at Rs.1.07 crore January 31, 2023. The average utilisation of cash credit limit and channel financing limit stood at 83% and 88% during the last twelve months ended December 31, 2022. Also, the company is expected to receive subsidy of Rs. 2.51 crore by March 31, 2023, providing additional cushion along with the available cushion in the working capital limits. The business of VSTPL is working capital intensive in nature as the company has to provide credit period to its customers and maintain inventory of around 45 days for smooth manufacturing operation. The working capital requirement of the company is financed through a mix of creditors, internal accruals, and bank borrowings. Further, the operating cycle of the company improved to 41 days in FY22 from 70 days in FY21 on account of improvement in collection & inventory period. The company has increased the utilisation of its non-fund based facilities and stood at 89% during the last twelve months ended December 2022.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Iron & Steel Products

VSTPL (CIN: U27109HR2003PTC035091) was founded by Mr. Vibhor Kaushik and Mr. Vijay Kaushik in 2003. The company ventures into the manufacturing of ERW Black Pipe, Galvanised Pipes, Hollow Section, Primer painted pipes. The products find application in the construction, domestic, agriculture and the industrial sector. The company operates out of two manufacturing facilities the first one is based in Sukheli, Maharashtra with a production capacity of 125,000 MTPA and the second one is based out of Mehboob Nagar, Telangana with a production capacity of 96,000 MTPA. The company has also installed 2 MW solar rooftop solar power units (1MW each at both the units) for captive consumption.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	10MFY23 (UA)
Total operating income	516.63	823.73	929.01
PBILDT	19.97	30.05	41.92
PAT	2.87	12.29	22.56
Overall gearing (times)	1.03	1.53	NA
Interest coverage (times)	2.18	3.45	5.72

A: Audited; UA: Unaudited, NA: Not Available

Status of non-cooperation with previous CRA: Nil
Any other information: Not applicable
Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2027	14.35	CARE BBB; Positive
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	37.50	CARE BBB; Positive / CARE A3+
Fund-based - ST-Vendor financing		-	-	-	23.00	CARE A3+
Non-fund-based - ST-BG/LC		-	-	-	75.00	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	14.35	CARE BBB; Positive	-	1)CARE BBB; Positive (23-Mar-22)	1)CARE BBB; Stable (16-Mar-21) 2)CARE BBB; Stable (09-Feb-21) 3)CARE BBB; Stable (04-Sep-20)	1)CARE BBB-; Stable; ISSUER NOT COOPERATING* (16-Mar-20)
2	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	37.50	CARE BBB; Positive / CARE A3+	-	1)CARE BBB; Positive / CARE A3 (23-Mar-22)	1)CARE BBB; Stable / CARE A3 (16-Mar-21) 2)CARE BBB; Stable / CARE A3 (09-Feb-21) 3)CARE BBB; Stable / CARE A3 (04-Sep-20)	1)CARE BBB-; Stable; ISSUER NOT COOPERATING* (16-Mar-20)
3	Non-fund-based - ST-BG/LC	ST	75.00	CARE A3+	-	1)CARE A3 (23-Mar-22)	1)CARE A3 (16-Mar-21) 2)CARE A3 (09-Feb-21) 3)CARE A3 (04-Sep-20)	1)CARE A3; ISSUER NOT COOPERATING* (16-Mar-20)
4	Fund-based - ST-Vendor financing	ST	23.00	CARE A3+	-	1)CARE A3 (23-Mar-22)	1)CARE A3 (16-Mar-21) 2)CARE A3 (09-Feb-21) 3)CARE A3 (04-Sep-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. Margin on fund-based limits	Margin of 25% on all inventory and book debts (Cover period 90 days)
II. Margin on Non-fund based limits	15% Margin on Non fund based limits
III. Current ratio	Current ratio not below 1.10 times
IV. TOL/TNW	Not to exceed 3x times
B. Non-financial covenants	
I. Submission of Annual and Quarterly financial Statements	Company to submit latest audited balance sheet within 6 months of end of financial year. Quarterly financial results within 8 weeks of end of quarter
II. Submission of stock statement	Monthly stock statements as on last day of the month is to be submitted by 15th day of next month

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/Packing Credit	Simple
3	Fund-based - ST-Vendor financing	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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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