

Scoda Tubes Limited

October 23, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	35.68	CARE BB+; Stable	Assigned
Long Term / Short Term Bank Facilities	90.00	CARE BB+; Stable / CARE A4+	Assigned
Short Term Bank Facilities	5.00	CARE A4+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Scoda Tubes Limited (STL) are constrained due to leveraged capital structure and moderate debt coverage indicators along with stretched liquidity profile. The ratings, further, 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 increasing though moderate scale of operations during FY23, moderate profitability and its experienced promoters. The ratings, further, takes a note of successful completion of expansion of manufacturing capacities and backward integration for its key raw materials.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Volume based growth in TOI to more than Rs.400 crore with PBILDT margin above 10% and ROCE above 15%, on sustained basis
- Improvement in overall gearing ratio to below 1.50x.

Negative factors

- Decline in TOI below Rs.250 crore and PBILDT below 8% on sustained basis
- Deterioration in overall gearing ratio to above 3.50x on sustained basis, adversely impacting the debt coverage indicators and liquidity

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that the company is likely to sustain the growth in its scale of operations, backed by an adequate order backlog, along with the sustenance of its debt coverage indicators in the near to medium term.

Detailed description of the key rating drivers

Key weaknesses

Leveraged Capital structure

The capital structure of the company remains leveraged as marked by an overall gearing of 3.12 times as on March 31, 2023 as against 3.12 times as on March 31, 2022. The total debt level as on March 31, 2023 remained at ~Rs.139 crore consisting of term loan from banks, unsecured loans from directors and working capital bank borrowings (including CC and LC limits). Debt coverage indicators remains moderate marked by interest coverage of around 3x in FY23 (~1.50x in FY22) and total debt/GCA of around 6.87x in FY23 (P.Y.:33.51x).

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

The prices of stainless steel are highly volatile. This exposes the profitability of the company to risk associated with any sharp adverse variations in the raw material prices, in light of a high inventory holding period. However, as indicated by management, majority inventory is order backed. This mitigates raw material price risk volatility to an extent.

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

The company utilises imported raw materials for manufacturing of SS pipes and tubes. Also, the company's TOI includes revenue from export market which nearly contributes around 30% in TOI. Accordingly, any sharp fluctuations in forex prices may affect the profitability of the company. Presently, the company does not have any hedging policy in place to mitigate forex fluctuation risk. However, the post expansion towards backward integration, the proportion of imported raw materials have reduced which may mitigate forex risks to the extent.

Presence in a competitive and fragmented pipe fitting 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.

Also, 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. Company derives its substantial revenue from industries such as refineries, power plants, fertilizer, petrochemical, etc. Its revenue stream is largely linked to new investment in these sectors considering low replacement demand for these products.

Key strengths

Growth in total operating income, coupled with moderate order book, though scale remains moderate

Total operating income of STL grew to Rs. 307.58 crore in FY23 as against Rs.194.95 crore in FY22 registering y-o-y growth of 58% backed by growth in volumes. During H1FY24, the company has earned TOI of ~Rs.190 crore and it is expected to register TOI of around Rs.400 crore in FY24.

The sales volumes of SS seamless pipes increased to 5865 MTPA in FY23 as against 3874 MTPA in FY22 registering growth of 51% y-o-y. During H1FY24, the company sold around 4000 MT of stainless pipes.

As on September 30, 2023, STL has an order book amounting to ~Rs.125.00 crore which is expected to be executed within next 3-4 months.

Moderate profitability with significant improvement in FY23

STL's PBILDT margin grew to 12.11% during FY23 as against 4-6% in last four years ended FY22 (5.66% during FY22). Margins for FY23 improved on account of saving in cost of raw materials viz. mother hollow pipes due to capex incurred towards inhouse manufacturing of such pipes. Further, increasing share of export market in TOI of company also contributed to better margins in FY23.

Margins for are expected to remain healthy above 8 to 10% on account of capacity expansion of finished products and backward integration done in FY22. ROCE also remained adequate at over 15% in FY23.

Experienced promoters

Scoda Tubes Limited (STL) is promoted by Mr. Dhanraj Khatri and Mr. Mahesh Patel in 2008 as closely held limited company to engage in manufacturing of stainless-steel pipes & stainless steel welded tubes. They have an experience of more than a decade in the steel industry. At present, the company is managed by Mr. Jagrut Patel since 2016 and he has 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.

Liquidity: Stretched

STL's liquidity remained stretched marked by high utilization of bank facilities owing to sizeable operating cycle, though GCA remains adequate against scheduled debt repayments. Operating cycle of the company remained stretched at 131 days in FY23 (128 days in FY22) on the back of higher inventory holding period. Average collection period of STL stood at 51 days in FY23 (P.Y.:51 days) while its inventory holding period was ~114 days in FY23 (P.Y.:108 days). Average working capital utilization of bank facilities stood high at more than 90% for the past 12 month ended August, 2023.

Company has scheduled repayment of Rs.8.71 crore in FY24 which is expected to be met from its cash accrual generation.

Environment, social, and governance (ESG) risks: Not applicable

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

Scoda Tubes Limited (STL) was promoted by Mr. Dhanraj Khatri and Mr. Mahesh Patel in 2008 and is engaged in manufacturing of stainless steel pipes & tubes (both seamless and welded). The company operates from manufacturing facilities located at Kadi (Gujarat) with an installed capacity of manufacturing ~800 Tonnes per month (MTPM) as on September 30, 2023 (700 MTPM as on March 31, 2023).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24
Total operating income	194.95	307.58	190.00
PBILDT	11.04	37.26	NA
PAT	1.77	9.41	NA
Overall gearing (times)	3.12	3.12	NA
Interest coverage (times)	1.56	2.95	NA

A: Audited; NA: Not available; Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - ST-EPC/PSC		-	-	-	5.00	CARE A4+
Fund-based/Non-fund-based-LT/ST		-	-	-	90.00	CARE BB+; Stable / CARE A4+
Term Loan-Long Term		-	-	August 2029	35.68	CARE BB+; Stable

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (14-Feb-22)	1)CARE BB-; Stable (05-Jan-21)
2	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	1)Withdrawn (19-May-22)	1)CARE A4 (14-Feb-22)	1)CARE A4 (05-Jan-21)
3	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	1)Withdrawn (14-Feb-22)	1)CARE A4 (05-Jan-21)
4	Non-fund-based - ST-Bill Discounting / Bills Purchasing	ST	-	-	-	-	1)Withdrawn (14-Feb-22)	1)CARE A4 (05-Jan-21)
5	Fund-based - ST-Packing Credit in Foreign Currency	ST	-	-	-	-	1)Withdrawn (14-Feb-22)	1)CARE A4 (05-Jan-21)
6	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (14-Feb-22)	1)CARE BB-; Stable (05-Jan-21)
7	Term Loan-Long Term	LT	35.68	CARE BB+; Stable				
8	Fund-based/Non-fund-based-LT/ST	LT/ST*	90.00	CARE BB+; Stable / CARE A4+				
9	Fund-based - ST-EPC/PSC	ST	5.00	CARE A4+				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - ST-EPC/PSC	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple
3	Term Loan-Long Term	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.

Contact us

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About us:

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