Vibhor Steel Tubes Limited
(Erstwhile Vibhor Steel Tubes Private Limited)

January 3, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	26.80 (Enhanced from 14.35)	CARE BBB; Positive	Reaffirmed
Long-term / Short-term bank facilities	52.50 (Enhanced from 37.50)	CARE BBB; Positive / CARE A3+	Reaffirmed
Short-term bank facilities	192.50 (Enhanced from 98.00)	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings to the bank facilities of Vibhor Steel Tubes Limited (VSTL, erstwhile Vibhor Steel Tubes Private Limited) 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. The ratings also factor in VSTL's growing scale of operations supported by long-term off-take arrangement with Jindal Pipes Limited (JPL).

The aforementioned rating strengths are partially offset by the customer concentration risk, project risk associated with the planned debt-funded capital expenditure (capex) and moderate financial risk profile. The ratings also factor in VSTL's presence in a highly fragmented and competitive ERW pipe manufacturing business with low entry barriers, thereby operating at low profitability margins.

The ratings also take a note of the company's plan to raise funds through an initial public offer (IPO) route in near future.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in scale of operations and profit before interest, lease rentals, depreciation and taxation (PBILDT) margins resulting in total debt to gross cash accruals (TDGCA) below 2x on a sustained basis.
- Improved capital structure marked by total outside liabilities (TOL)/tangible net worth (TNW) ratio below unity on sustained basis.

Negative factors

- Decline in revenue and profitability, leading to lower-than-envisaged cash accruals.
- Higher-than-anticipated incremental debt, due to time and cost overruns in the proposed project and/or incremental working capital requirement leading to overall gearing ratio of over 2x.
- Sustained deterioration in 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 Ratings Limited's (CARE Ratings') expectation of further growth in scale of operations coupled with stable PBILDT margins resulting in higher cash accruals while maintaining its financial risk profile. The outlook may be revised to 'Stable' if the financial risk profile moderates due to higher-than-envisaged debt-funded capex or lower-than-expected cash accruals.

Detailed description of the key rating drivers:

Key strengths

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

Experienced promoters
The promoters of the company, Mr. Vijay Kaushik, Mrs. Vijay Laxmi Kaushik and Mr. Vibhor Kaushik, have an experience of over a decade in the steel pipes and tubes industry. Vibhor Kaushik is an Electrical engineer graduated from USA. The promoters are backed by an experienced team who currently head various divisions at VSTL. CARE Ratings expects the company to derive benefits from experience promoters and longstanding relation with JPL.

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 which is renewed in April 2023, which assures minimum off take arrangement of 100,000 metric tons (MTs) for a year and compensates VSTL at a rate of ₹2,000/MT for any shortfall. Furthermore, it also takes care of VSTL's major manufacturing costs. CARE Ratings believes that timely renewal of the MoU without modifications to existing terms and conditions is critical from credit rating perspective.

Growing scale of operations
VSTL's TOI increased to ₹1,113.16 crore in FY23 (FY refers to the period from April 1 to March 31) from ₹818 crore in FY22. The growth was driven by increased volumetric sales, on the back of better demand from end-user segments. CARE Ratings expects the scale of operations to witness steady growth over the medium term on the back of improved order flow, enhancement of capacity and addition of new products.

Initial public offer (IPO)
The company was converted into a public company in June 2023 as it intends to go for an IPO and has filed the DRHP on October 3, 2023. The management intends to use the net proceeds of IPO to fund the working capital requirements and remaining net proceeds will be utilised for general corporate purpose.

Key weaknesses

Customer concentration risk
VSTL derived approximately 88-92% of revenue during the last three years ending FY23 from sale to JPL. During FY23, the quantity sold to JPL was more than the minimum off-take. JPL has a network of dealers across India and sells pipes & tubes 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 De Wit Bouwmachines B.V, macroMetal Handelsgesellschaft MBH, etc.

Project risk associated with planned debt-funded capex
The company is in the process of enhancing its manufacturing and galvanising capacity in Telangana plant and setting up new plant in Odisha. Furthermore, it has added new products such as crash barriers and square pipes to its product portfolio during FY24. The capex of around ₹60 crore (₹20 crore towards Telangana unit and ₹40 crore towards setting up Odisha unit) is expected to be incurred over FY24-FY25, which is funded through a mix of debt and internal accruals. While the company has incurred close to 30% of cost for Telangana capex (funded through term loan of ₹6 crore and rest through internal accruals), Odisha-based project is in nascent stage as currently land is acquired along with pending financial closure status. The Odisha unit is expected to commence its operations in near term. The same is in nascent stage of completion, and thus exposed to execution risk. CARE Ratings notes that any time or cost overrun may strain the liquidity and will remain key monitorable going forward.

Moderate financial risk profile
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 ₹93.20 crore as on March 31, 2023. The capital structure of the company though improved marginally on the back of steady accretion to reserves, remained moderate as indicated by overall gearing of 1.63x as on March 31, 2023 (1.77x as on March 31, 2022). Debt protection metrics of the company improved during FY23 owing to improved performance however, remained moderate. Interest coverage ratio and TDGCA stood at 3.72x (3.38x) and 5.57x (7.35x), respectively, in FY23. The company is incurring debt-funded capex which is expected to deteriorate the debt protection metrics over the medium term. CARE Ratings notes that any higher-than-envisaged debt-funded capex may weaken the financial risk profile, and the same will remain key monitorable going forward.

Modest PBILDT margins
VSTL operates two units at Sukheli, Maharashtra (installed capacity 125000 MT) and Mehboob Nagar, Telangana (installed capacity of 96000 MT). The average capacity utilisation of the cumulative capacity remained low and remained in the range of 48-52% during last three years ended FY22. However, the capacity utilisation level increased to 72% during FY23 thus, resulting in improved operating leverage. This, coupled with better absorption of fixed cost led to improvement in PBILDT margins to 4.10% from 3.59% in FY23. Nevertheless, the PBILDT margins remain modest owing to relatively low value addition of pipes. Furthermore, the company is exposed to the risk of raw material price fluctuation as it is unable to fully pass on the fluctuations to the end user. CARE Ratings believes that the company's ability to optimally utilise its capacities and ramp-up in utilisation of newly added capacity will be a key rating monitorable.

Presence of the company in a fragmented and competitive industry
The company operates in steel pipes and tubes manufacturing industry which is highly fragmented in nature with presence of a number of unorganised 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
The liquidity of VSTL is characterised by a moderate cushion in accruals vis-à-vis repayment obligations. GCA is expected to be at ₹28 crore in FY24 as against the repayment obligations to the tune of ₹4 crore in FY24. However, starting FY25, the repayment obligations are expected to increase and be in the range of ₹8-12 crore against which company is expected to generate sufficient GCA to the tune of nearly ₹30-43 crore. The working capital facilities remained moderately utilised during last 12 months ended October 31, 2023. The unutilised portion provides additional liquidity cushion. The company has been enhancing its working capital facilities to fund the increasing working capital requirements driven by improving scale of operations. Timely enhancement in working capital limits supports the liquidity.

Assumptions/Covenants: Not applicable

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](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial products	Iron & steel products

VSTL (CIN: U27109HR2003PLC035091) was founded by Vibhor Kaushik and 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 (1 MW each at both the units) for captive consumption.

Brief Financials (₹ crore)	March 31, 2022 (A; restated)	March 31, 2023 (A; restated)	H1FY24 (UA)
Total operating income	818.00	1,113.16	NA
PBILDT	29.38	45.63	
PAT	11.33	21.07	
Overall gearing (times)	1.77	1.64	
Interest coverage (times)	3.38	3.72	

A: Audited UA: Unaudited NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Nil

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: 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		-	-	31-12-2029	26.80	CARE BBB; Positive
Fund-based - LT/ ST-CC/Packing credit		-	-	-	52.50	CARE BBB; Positive / CARE A3+
Fund-based - ST-Vendor financing		-	-	-	52.50	CARE A3+
Non-fund-based - ST-BG/LC		-	-	-	140.00	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 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-Term loan	LT	26.80	CARE BBB; Positive	-	1)CARE BBB; Positive (16-Feb-23)	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)

2	Fund-based - LT/ ST-CC/Packing credit	LT/ST*	52.50	CARE BBB; Positive / CARE A3+	-	1)CARE BBB; Positive / CARE A3+ (16-Feb-23)	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)
3	Non-fund-based - ST-BG/LC	ST	140.00	CARE A3+	-	1)CARE A3+ (16-Feb-23)	1)CARE A3 (23-Mar-22)	1)CARE A3 (16-Mar-21) 2)CARE A3 (09-Feb-21) 3)CARE A3 (04-Sep-20)
4	Fund-based - ST-Vendor financing	ST	52.50	CARE A3+	-	1)CARE A3+ (16-Feb-23)	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 covenants of the rated facilities: Not applicable

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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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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