Tembo Global Industries Limited

July 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	149.85 (Enhanced from 10.21)	CARE BBB-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	5.00 (Enhanced from 4.29)	CARE BBB-; Stable / CARE A3	Reaffirmed
Short Term Bank Facilities	27.50	CARE A3	Assigned
Short Term Bank Facilities	38.00 (Enhanced from 25.50)	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of Tembo Global Industries Limited (TGIL) continue to derive strength from its growing scale of operations along with sizable order book position from engineering, procurement, and construction (EPC) business depicting revenue visibility in near term and adequate liquidity position. The ratings, further, derive comfort from experienced promoters in manufacturing of pipe hangers & pipe support systems and yarn trading business, TGIL's proven track record of operations is further enhanced by necessary approvals and certifications of quality standards for its product range.

The ratings also take a note of company being diversified into the EPC business of pipe underlaying projects and is in process of setting up a backward integrated manufacturing unit for electric resistance welded (ERW) pipes.

The above strengths, however, are partially offset by moderate profit margins, working capital intensive nature of operations, susceptibility of profitability due to volatility in raw material prices and foreign exchange fluctuation risk. The ratings further constrained by project execution and stabilization risk along with timely tie up and execution of the orders received under EPC segment.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Significant increase in the scale of operations along with improvement in PBILDT margin exceeding 8% on sustained basis.
- Improvement in the capital structure with adjusted overall gearing reaching below unity level on a sustained basis.

Negative factors

- Deterioration in overall gearing above 1.45x and total debt to PBILDT exceeding 4.50x on a sustained basis
- Elongation in operating cycle above 120 days on a sustained basis
- Inability to tie up of funds in the form of equity and envisaged debt in timely manner leading to delay in the existing order execution along with tie up of the pipelined orders
- Any significant delay in completion of the envisaged capex leading to significant increase in cost and time overrun

Analytical approach: Standalone

Outlook: Stable

The rating outlook "Stable" reflects stable business and financial risk profile of the company. The company is expected to improve its scale of operations by sustaining profitability along with efficient management of working capital cycle.

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

Detailed description of the key rating drivers

Key strengths

Experienced promoters in manufacturing of pipe hangers & pipe support systems

The overall operations of TGIL are looked after by the promoters – Mr. Sanjay Patel along with Mr. Shabbir Kachwala (husband of Mrs. Fatema Kachwala, whole time director in TGIL), who possess a total experience of over two decades of in the field of manufacturing of various engineering & electrical products. Prior to the incorporation of TGIL, Mr. Sanjay Patel was involved in his own business viz. Tembo Exim Private Limited, engaged in trading of various types of pipes. On the other hand, Mr. Shabbir Kachwala possesses the requisite experience in the manufacturing of pipe hangers & pipe support systems. Hence, the extensive experience of the promoters enables them to establish strong marketing connects and production process excellence for TGIL. Further, company has also onboarded Mr. Firdose Vandrevala (Ex DMD of Tata Steel and Ex MD of Tata Power) as non-executive director to drive the EPC business vertical. Further the all the promoters and directors are supported by qualified and experienced team in the field of diverse business segments.

Established track record of operations with various approvals & certifications of quality standards

TGIL possesses an established track record of over a decade of operations in manufacturing of various pipe hangers and pipe support systems (the company forayed into the manufacturing segment from 2012) and over 13 years of operations in trading of cotton yarn. The company manufactures various types of pipe hangers and pipe support systems include clevis hanger, band hanger, sprinkler hanger, pipe hanger with & without lining, heavy duty pipe hanger, easy fix pipe hanger with lining, pipe hanger with & without lining - light duty with stud, two bolt pipe clamps with & without lining, double pipe hanger with lining, surge restrainer, light & heavy saddle, offset hanger, U strap, U bolt, loop hanger, riser clamp, and many others. The pipe hangers manufactured by the company are accredited by two renowned international certification bodies. The aforementioned products are sold under its brand name viz. Tembo. Over the years of its operations, the company has established long-term relationships with its various customers, suppliers and other stakeholders.

Established relationship with clientele

The products dealt by TGIL find a wide range of applications in varied industries viz. defence, oil & gas, plumbing & water works, construction & real estate, fire-fighting, drainage, electrical products, various industrial applications, etc. Moreover, the company has established long-term relationships with its various customers in the domestic as well as overseas market. Company's revenue is diversified in manufacturing (24% of revenue of FY24) and trading segments (76% of revenue of FY24). In trading segment, company sells yarn to various exporters located in India. Furthermore, the over the years of operations the company has developed established relations with customers in manufacturing and trading segments while the customer profile is moderately concentrated with the top 5 customers comprising 40% of the net sales in FY24 and FY23.

Growing scale of operations and sizable order book position

The scale of operations of TGIL grew at compounded annual growth rate (CAGR) of 53.68% in FY20-FY24. During FY24, total operating income (TOI) grew by 74% to Rs.439.12 crore (vis-à-vis Rs.251.68 crore in FY23). Growth in scale of operations is driven by 112% increase in sales from yarn trading business with sale of Rs. 334.05 crore compared to Rs. 157.28 crore due to increasing orders from existing and addition of new customers. Along with the same, manufacturing segment also shown a growth of 13% y-o-y with sales of Rs. 105.44 crore in FY24 compared to Rs. 92.98 crore in FY23 on account of increase in sales volume to 1,64,34,865 units in FY24 from 1,53,98,673 units in FY23 along with improvement in sales realization.

The scale of operations is expected to increase from FY25 onwards on the back of established revenue from existing manufacturing and trading segments. Further, the company has forayed into Engineering, Procurement and Construction (EPC) segment and bagged an order from Kalpataru Projects International Ltd (CARE AA; Negative / CARE A1+), for supply and EPC of ductile iron pipes with total contract value of Rs. 240 crore which is to be completed by November 2024. Moreover, the company also envisaged pipeline orders of Rs. 480 crore thereby providing revenue visibility during short to medium terms. Nevertheless, the timely completion of the said orders along with timely tie up of the said pipelined orders remains key monitorable.

Key weaknesses

Moderate profit margins

PBILDT margin of the company continued to remain at moderate level and in the range of to 5% to 8% in FY20-FY24, given the mix of industrial products manufacturing and yarn trading nature of operations. It marginally improved to 6.08% in FY24 (vis-à-vis 5.76% in FY23) on account of improvement in average sales realisation from manufacturing segment to Rs. 64/unit in FY24 from Rs. 56/unit in FY23 along with increase in sales thereby leading to proportionate reduction in various costs.

Further PBIT from both manufacturing and trading segment improved in FY24. In manufacturing segment, PBIT improved to 15.04% in FY24 compared to 10.21% in FY23 and in trading segment it improved to 2.35% in FY24 compared to 1.14% in FY23. The improvement in the trading segment was primarily attributable due to significant increase in the revenue thereby proportionately reducing other costs.

Further in line with improvement in PBILDT margin, PAT margin also improved to 3.16% in FY24 from 2.31% in FY23. Despite significant growth envisaged, the profit margins likely to remain in the similar range during FY25 on account of nascent stage of EPC business activities predominantly led by supply of pipes to be procured from other manufacturers. The same would likely to improve post commencement capex for the pipe manufacturing activities.

Expected to moderation in capital structure and debt coverage indicators

The capital structure of the company continued to remain comfortable marked by overall gearing improved to 0.76x as on March 31, 2024 (vis-à-vis 1.06x as on March 31, 2023) on account of increase in net worth base as company issued 23,84,400 share warrants (preferential issue) at Rs.230 per warrant of which Rs. 57.50 per warrant amounting to Rs. 13.71 crore received during FY24 along with accretion of profit to reserve. On the other hand, total debt has also increased mainly due to increased utilization of working capital bank borrowings and infusion of unsecured loan by promotors. Further, during FY24, TGIL has exposure to group companies through investments made in subsidiaries of Rs. 2.09 crore, corporate guarantees given to bank facilities of group companies for Rs. 8.21 crore, outstanding discounted letter of credit of Rs. 4.03 crore and intercorporate deposits (ICDs) of Rs.20.11 crore given to group entities for project execution purpose. Considering the given outflow, the adjusted overall gearing remained moderate at 1.44x as on March 31, 2024.

While the debt coverage indicators remained comfortable with total debt to gross cash accruals (GCA) remained at 2.92x in FY24 (vis-à-vis 4.92x in FY23) due to significant increase in absolute GCA. Further, interest coverage ratio also improved to 4.55x in FY24 vis-à-vis 3.79x in FY23 due to increase in absolute PBILDT in FY24.

However, the capital structure is expected to deteriorate on account increase in the working capital requirements of the company for the execution of orders across EPC segment which are being funded through additional working capital limits of Rs.95 crore. Further, the ongoing capex is also being funded through term loan of Rs.50 crore. On the other hand, the expected equity infusion of Rs.41.13 during FY25, hence, the capital structure is expected to be at a moderated level at the end of FY25. The debt coverage indicators also likely to deteriorate in near to medium terms.

Working capital intensive nature of operations

The operations of TGIL remained working capital intensive on account of higher gross current assets period of 88 days in FY24 (vis-à-vis 115 days in FY23) on account of moderate level of inventory and receivables along with funds blocked in other current assets (primarily in the form ICDs). Average collection period improved to 23 days (37 days) as company offers average credit period of up to two months in manufacturing as well as trading segment and better recovery from debtors. Further company must maintain inventory of around one to two months to execute the orders in timely manner therefore average inventory period remained to 34 days (46 days). Further company receives credit period of around 15 to 45 days which led to average creditors' period of 24 days (28 days). Collectively, the working capital cycle improved to 32 days (54 days). Although, the utilization of the working capital limits remained high.

Project execution and funding risk

Company has planned greenfield project of manufacturing of electric resistance welded (ERW) pipes, struts and it is setting up new manufacturing unit in Palghar, Maharashtra (nearby area of current manufacturing plant). TGIL to add installed capacity of 90,000 metric tons of pipes and struts per annum. Total cost of the project is estimated at Rs. 94.87 crore which is being funded through equity contribution of Rs. 44.87 crore and term loan of Rs. 50 crore. Company has started project execution in FY24 and incurred 40% of the cost i.e. Rs. 37.49 crore till June 22, 2024 through term loan disbursement of Rs.15.53 crore and Rs.17.92 crore through equity infusion, Rs. 4.04 crore by creditors. The project is expected to be operational from April 01, 2025.

Thus, going forward TGIL's ability to arrange the sufficient funds to complete the project in timely manner without any cost and time overrun and subsequent stabilization of the same remains key monitorable.

Susceptibility of profitability due to volatility in raw material prices and foreign exchange fluctuation risk

The raw material i.e. steel is the major cost driver and the prices of the same are volatile in nature therefore cost base remains exposed to any adverse price fluctuations. Further, the company does not have any long-term contracts with its suppliers and procurements are done at prevailing market prices thereby exposing to volatility in raw material prices. Company also deals in trading of yarn and prices of which also remain volatile and with limited ability to pass on the increase in material costs in a competitive operating spectrum, any substantial increase in material costs would affect the company's profitability. Further, TGIL does sizable exports of around ~80% of manufactured pipes fitting products in FY24. Thus, it exposed to moderate foreign exchange fluctuation risk. This overall structure does not provide any natural hedge in absence of import. From the hedging perspective, it has partial hedging policy and hedges its risk through forward contract. Accordingly, the profit margins of TGIL remain susceptible to the adverse or favourable movement in forex rate, which had been highly volatile in the past. The company has witnessed foreign currency fluctuation gain of Rs.0.11 crore in FY24.

Liquidity: Adequate

The liquidity position remained adequate characterized by sufficient cushion in gross accruals as against its principal debt repayment obligations of Rs.1.17 crore and Rs.8.31 crore in FY25 and FY26 respectively. The cash & bank balance stood low at Rs.0.37 crore as on March 31, 2024 (vis-à-vis Rs. 0.45 crore as on March 31, 2023). Average utilization of working capital limits of Rs.40 crore stood at around 96.57% and average of maximum utilization remained at 99.36% for the last 12 months ended April 2024. Further, the current ratio remained moderate at 1.48x as on March 31, 2024 (vis-à-vis 1.29x as on March 31, 2023). The cash flow from operating activities stood positive of Rs.17.62 crore in FY24 (vis-à-vis Rs.2.00 crore in FY23).

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Construction
Wholesale Trading

About the company and industry

Industry classification

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

Incorporated in 2010 by Mr. Sanjay Patel along with his family members, Tembo Global Industries Limited (TGIL) (Formerly known as Saketh Exim Limited) was earlier engaged in trading of various engineering products. Later, since 2012, company started manufacturing of various pipe hangers & pipe support systems. Products are accredited by international quality certification bodies, whereas the same find a wide range of applications in varied industries. Moreover, the company is also engaged in trading of cotton yarn, which are sold to various exporters in India.
During, FY25, company has forayed into Engineering, Procurement and Construction (EPC) business wherein it undertakes supply and underlaying of pipe activities in across India.
Further, TGIL is setting up manufacturing unit of manufacturing of electric resistance welded (ERW) pipes and struts which is expected to be operational from April 2025. The said foray will be primarily serving as backward integration unit for its EPC business activities.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	251.68	439.12
PBILDT	14.49	26.68
PAT	5.82	13.86
Overall gearing (times)	1.06	0.76
Interest coverage (times)	3.79	4.55

A: Audited, 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 - LT-Cash Credit		-	-	-	97.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	March 2032	52.85	CARE BBB-; Stable
Fund-based - ST-EPC/PSC		-	-	-	38.00	CARE A3
Non-fund-based - LT/ ST-BG/LC		-	-	-	5.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Bank Guarantee		-	-	-	27.50	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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	97.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (09-May-23)	-	-
2	Fund-based - ST-EPC/PSC	ST	38.00	CARE A3	-	1)CARE A3 (09-May-23)	-	-
3	Fund-based - LT-Term Loan	LT	52.85	CARE BBB-; Stable	-	1)CARE BBB-; Stable (09-May-23)	-	-
4	Non-fund-based - LT/ ST-BG/LC	LT/ST	5.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (09-May-23)	-	-
5	Non-fund-based - ST-Bank Guarantee	ST	27.50	CARE A3				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not available

Annexure-4: Complexity level of the various instruments rated

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-EPC/PSC	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple
5	Non-fund-based - ST-Bank Guarantee	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

Media Contact Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: ankur.sachdeva@careedge.in	**Analytical Contacts** Name: Akhil Goyal Director **CARE Ratings Limited** Phone: +91-22 6754 3590 E-mail: akhil.goyal@careedge.in Name: Ashish Kambli Associate Director **CARE Ratings Limited** Phone: +91 - 22 - 6754 3597 E-mail: Ashish.k@careedge.in Name: Aditya Bhujbal Analyst **CARE Ratings Limited** E-mail: aditya.bhujbal@careedge.in

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.

For the detailed Rationale Report and subscription information, please visit www.careedge.in