

## Scoda Tubes Limited

December 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE BB+; Stable / CARE A4+ and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed at CARE BB+; Stable and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A4+ and Withdrawn

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

CARE Ratings Ltd has reaffirmed and withdrawn the outstanding ratings of 'CARE BB+; Stable/ CARE A4+ (Double B Plus; Outlook; Stable/ A Four Plus)' assigned to the bank facilities of Scoda Tubes Limited (STL) with immediate effect. The above action has been taken at the request of STL and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE Ratings Ltd.

The ratings prior to its withdrawal remained constrained on account of leveraged capital structure, moderate debt coverage indicators and stretched liquidity position. Further, the ratings remained constrained with STL's 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 derived strength from increasing though moderate scale of operations, moderate profitability and experienced promoters.

### Analytical approach: Standalone

### Outlook:

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 along with the sustenance of its debt coverage indicators in the near to medium term.

### Detailed description of key rating drivers:

#### Key weaknesses

##### Leveraged capital structure and moderate debt coverage indicators

The capital structure of STL remains leveraged as marked by an overall gearing of 3.20x as on March 31, 2024 as against 3.12x as on March 31, 2023 due to higher working capital utilization as on balance sheet date. Debt coverage indicators remains moderate marked by interest coverage of 3.13x in FY23 (~2.95x in FY23) and total debt/GCA of around 5.73x in FY24 (P.Y.:6.87x).

##### 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, since majority of inventory is order backed. This mitigates raw material price risk volatility to an extent. The company utilises imported raw materials for manufacturing of SS pipes and tubes. 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 steel tubes and pipes 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.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

## Key strengths

### Growing scale of operations

The scale of operations as marked by Total Operating Income (TOI) has been continuously growing since the last four years ended FY24. TOI remained at Rs. 400.89 crore in FY24 (PY: Rs.307.58 crore).

### Improvement in profitability

The profitability improved marked by PBILDT margin and remained at 14.92% in FY24 as against 12.11% in FY23. Consequently, PAT margin also improved from 3.06% in FY23 to 4.57% in FY24.

### Experienced promoters

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

The liquidity position of STL remained stretched characterized by elongated operating cycle of 126 days in FY24 (131 days in FY23) and modest cash and bank balance of Rs.0.70 lacs as on March 31, 2024.

## Applicable criteria

[Withdrawal Policy](#)

[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](#)

## About the company and industry

### Industry classification

Macroeconomic 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 as closely held limited company where entity 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, 2023 (A)	March 31, 2024 (A)
Total operating income	307.58	400.89
PBILDT	37.26	59.82
PAT	9.41	18.30
Overall gearing (times)	3.12	3.20
Interest coverage (times)	2.95	3.13

A: Audited UA: Unaudited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### **Annexure-1: Details of instruments/facilities**

<b>Name of the Instrument</b>	<b>ISIN</b>	<b>Date of Issuance (DD-MM-YYYY)</b>	<b>Coupon Rate (%)</b>	<b>Maturity Date (DD-MM-YYYY)</b>	<b>Size of the Issue (₹ crore)</b>	<b>Rating Assigned and Rating Outlook</b>
Fund-based - ST-EPC/PSC		-	-	-	0.00	Withdrawn
Fund-based/Non-fund-based-LT/ST		-	-	-	0.00	Withdrawn
Term Loan-Long Term		-	-	August 2029	0.00	Withdrawn

**Annexure-2: Rating history for 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	-	-	-	-	-	1)Withdrawn (14-Feb-22)
2	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	-	1)Withdrawn (19-May-22)	1)CARE A4 (14-Feb-22)
3	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	-	1)Withdrawn (14-Feb-22)
4	Non-fund-based - ST-Bill Discounting / Bills Purchasing	ST	-	-	-	-	-	1)Withdrawn (14-Feb-22)
5	Fund-based - ST-Packing Credit in Foreign Currency	ST	-	-	-	-	-	1)Withdrawn (14-Feb-22)
6	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (14-Feb-22)
7	Term Loan-Long Term	LT	-	-	1)CARE BB+; Stable (05-Dec-24)	1)CARE BB+; Stable (23-Oct-23)	-	-
8	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	1)CARE BB+; Stable / CARE A4+ (05-Dec-24)	1)CARE BB+; Stable / CARE A4+ (23-Oct-23)	-	-
9	Fund-based - ST-EPC/PSC	ST	-	-	1)CARE A4+ (05-Dec-24)	1)CARE A4+ (23-Oct-23)	-	-

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

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not Applicable**Annexure-4: Complexity level of 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 complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

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### About us:

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### Disclaimer:

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