Vibhor Steel Tubes Limited

February 13, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	55.81 (Enhanced from 26.80)	CARE BBB; Stable	Reaffirmed; Outlook revised from Positive
Long-term / Short-term bank facilities	60.99 (Enhanced from 52.50)	CARE BBB; Stable / CARE A3+	Reaffirmed; Outlook revised from Positive
Short-term bank facilities	155.00 (Reduced from 192.50)	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings to bank facilities of Vibhor Steel Tubes Limited (VSTL) continue to derive strength from its long track record of operations and extensive experience of promoters in manufacturing electric resistance welded (ERW) and galvanised pipes. Ratings also factor in VSTL's long-term off-take arrangement with Jindal Pipes Limited (JPL), moderate scale of operations and comfortable capital structure.

The aforementioned rating strengths are partially offset by customer concentration risk, project risk associated with the planned debt-funded capital expenditure (capex) and moderate debt coverage indicators. Ratings also factor in VSTL's presence in a highly fragmented and competitive ERW pipe manufacturing business with low entry barriers, operating at low profitability margins which are moderating in 9MFY25 (FY refers to April 01 to March 31) over 9MFY24.

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 (TD/GCA) below 2x on a sustained basis.
- Improved capital structure marked by total outside liabilities to tangible net worth (TOL/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 TD/GCA beyond 7x.
- Non-renewal of/ unfavourable changes in the terms of MoU with JPL.

Analytical approach: Standalone

Outlook: Stable

The outlook has been revised from 'Positive' to 'Stable' considering lower-than-envisaged cash accruals due to decline in profitability amidst raw material price volatility.

Detailed description of key rating drivers:

Key strengths

Experienced promoters

The company's promoters, Vijay Kaushik, Vijay Laxmi Kaushik and 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 different divisions at VSTL. CARE Ratings Limited (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 six 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 shortfall. It also takes care of VSTL's major manufacturing costs. CARE Ratings believes timely renewal of the MoU without modifications to existing terms and conditions is critical from credit rating perspective.

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

Moderate scale of operations
Despite of increase in volumetric sales in FY24 (Audited; refers to April 01, March 31), the company's revenue decreased to ₹1072 crore in FY24 from ₹1113 crore in FY23 considering dip in realisations. In 9MFY25 (unaudited; refers to April 01 to December 31), the company reported total operating income (TOI) of ₹708.91 crore against ₹782.49 crore in 9MFY24. However, the revenue is expected to improve over the medium term supported by better demand, addition of crash barriers, monopole, octagonal poles in product portfolio and capacity expansion.

Comfortable capital structure
The company's total debt profile consists of term loans, working capital borrowing, channel financing, and unsecured loans aggregating to ₹141.55 crore, against a tangible net-worth base of ₹177.78 crore as on March 31, 2024. The company's capital structure improved and remained comfortable marked by overall gearing ratio of 0.80x as on March 31, 2024, from 1.63x as on March 31, 2023. The improvement is mainly considering substantial increase in the company's net worth due to IPO proceeds. The company raised ~72 crore initial public offering (IPO).

Key weaknesses

Customer concentration risk
VSTL derived ~88-90% revenue in the last three years ending FY24 from sale to JPL. In FY24, the quantity sold to JPL was over the minimum off-take. JPL has a network of dealers across India and sells pipes and 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. The company's other customers include G.B.M. Building Equipment SRL (Italy), Thermokipia Kritis S.A., and T.S. Steel Trade Schweiz Ag among others.

Project risk associated with planned debt-funded capex
The company is setting up new unit in Odisha to increase footprints in that region. The total cost of project is ₹60 crore to be funded through term loan of ₹35 crore remaining through internal accruals. The company has incurred a total cost of ~₹56 crore till December 2024. The capex was initially expected to get commercial clearance by September 2024 but due to delay in electricity supply it is now expected to start by the end of February 2025. The company completed its debt funded capex towards the expansion of capacity (pipe manufacturing and galvanising) in the Hyderabad based unit. The total cost of this was ₹20 crore. The capex is funded through debt of ₹13 crore and rest through internal accruals. The company received commercial operations date (COD) in December 2024. CARE Ratings notes stabilisation of project and ramp of production would remain key monitorable going forward.

Moderate debt coverage indicators
The company's debt coverage metrics deteriorated marginally in FY24 owing to increase in finance cost, considering addition of term loan for capex however, remained moderate. Interest coverage ratio and TD/GCA remained at 2.69x and 5.44x, respectively, as on March 31, 2024 (PY:3.72x and 5.57x). The company is incurring debt-funded capex which is expected to deteriorate the debt protection metrics over the medium term but are expected to remain at moderate level.

Modest profit margins
VSTL operates two units at Sukheli, Maharashtra (installed capacity 1,25,000 metric tonne per annum [MTPA]) and Mehboob Nagar, Telangana (installed capacity of 96,000 MTPA). The average capacity utilisation of the cumulative capacity remained moderate at ~71% in the last two years ended FY24. The company's PBILDT margins continues to remain modest at 4.54% in FY24 against 4.10% in FY23 due to relatively low value addition of pipes. However, with dip in sales realisation, the company's PBILDT margins declined to 3.71% in 9MFY25 amidst raw material price volatility. 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 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 with presence of many 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
VSTL's liquidity remained adequate, characterized by a sufficient cushion in accruals against repayment obligations. GCA remained at ₹26 crore against low debt repayment obligation of ₹6-10 crore in near term. The average utilization of working capital facilities in the last 11 months ended November 2024 stood moderate at 64%. The company has been enhancing its working capital facilities to fund increasing working capital requirements driven by improving scale of operations. Cash and bank balance stood at ~₹24 crore as on March 31, 2024, which includes lien marked FD of ~₹22 crore. In FY24, current ratio remained at 1.42x and cash flow from operations (CFO) remained at negative ₹4.93 crore.

Applicable criteria

[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Financial Ratios – Nonfinancial Sector]
[Short Term Instruments]

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial products	Iron and steel products

VSTL (CIN: U27109HR2003PLC035091) was founded by Vibhor Kaushik and Vijay Kaushik in 2003. The company ventures in manufacturing 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 in Sukheli, Maharashtra, with a production capacity of 125,000 MTPA and the second one is in 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, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	1,113.13	1,072.71	708.91
PBILDT	45.60	48.68	26.32
PAT	21.07	17.72	7.33
Overall gearing (times)	1.63	0.80	NA
Interest coverage (times)	3.72	2.69	3.13

A: Audited UA: Unaudited NA: Not available; 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

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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	31-12-2029	55.81	CARE BBB; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	60.99	CARE BBB; Stable / CARE A3+
Fund-based - ST-Vendor financing		-	-	-	15.00	CARE A3+
Non-fund-based - ST-BG/LC		-	-	-	140.00	CARE A3+

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-Term Loan	LT	55.81	CARE BBB; Stable	-	1)CARE BBB; Positive (03-Jan-24)	1)CARE BBB; Positive (16-Feb-23)	1)CARE BBB; Positive (23-Mar-22)
2	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	60.99	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Positive / CARE A3+ (03-Jan-24)	1)CARE BBB; Positive / CARE A3+ (16-Feb-23)	1)CARE BBB; Positive / CARE A3 (23-Mar-22)
3	Non-fund-based - ST-BG/LC	ST	140.00	CARE A3+	-	1)CARE A3+ (03-Jan-24)	1)CARE A3+ (16-Feb-23)	1)CARE A3 (23-Mar-22)
4	Fund-based - ST-Vendor financing	ST	15.00	CARE A3+	-	1)CARE A3+ (03-Jan-24)	1)CARE A3+ (16-Feb-23)	1)CARE A3 (23-Mar-22)

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 - 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 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 for 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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