Steel and Metal Tubes India Private Limited

March 18, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	21.00 (Enhanced from 16.00)	CARE BBB-; Stable	Reaffirmed
Short Term Bank Facilities	28.00	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Steel and Metal Tubes India Private Limited (SMT) continue to derive strength from the company's experienced promoters with long track record of operations, efficient management of working capital and satisfactory financial risk profile. Ratings also take cognisance of growing scales of operations in FY24 (Audited, refers to April 01 to March 31) and 9MFY25 (Unaudited, refers to April 01 to December 31) followed by moderate cash accruals. However, rating strengths are partially offset by supplier concentration risk, susceptibility to fluctuation in raw material price, lower profitability margins, major concentration on single supplier and highly competitive, and fragmented nature of industry.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Growth in scale of operations beyond ₹450 crore considering overall improvement in volumes and margins at per tonne level and improvement in profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 4.00% on sustained basis.
- Improvement in solvency position as reflected by total outside liabilities to tangible net-worth (TOL/TNW) below 1.15x owing to adequate working capital management and low debt funded capex.

Negative factors

- Deterioration in the solvency position with overall gearing of above unity owing to increased working capital dependence.
- Significant decline in scale of operations or PBILDT margins falling below ~2.50%.

Analytical approach: Standalone

Outlook: Stable

The continuation of "Stable" outlook to bank facilities of SMT considers experience and capabilities of the management due to its long track record of operations to mitigate the inherent risk related to suppliers' concentration and competitive nature of industry without compromising much on operational aspects.

Detailed description of key rating drivers:

Key strengths

Experienced promoters with long track record of operations:

SMT has been promoted by Shankar Lal Aggarwal, Vinod Kumar Aggarwal and Pramod Kumar Aggarwal. Shankar Lal Aggarwal & Vinod Kumar Aggarwal has over four decades of experience in manufacturing and trading steel tubes and pipes and is assisted by Pramod Kumar Aggarwal in the capacity of director since 2015. Promoters are supported by strong management team having rich experience in their respective verticals. Promoters are resourceful and has shown their ability to infuse funds in the business in the form of unsecured loans of ₹4.24 crore as of March 31, 2024 (PY: ₹3.24 crore).

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

Growing scales of operations with moderate profitability margins

The entity's scale of operations has shown a slight growth of 6.17% year-on-year, increasing from ₹304.59 crore in FY23 to ₹323.39 crore in FY24, considering volume growth, which was partially offset by decline in sales realisation, owing to decline in steel prices in the year. The company maintains moderate profitability margins, with PBILDT margins of 3.12% and profit after taxation (PAT) margins of 1.67% in FY24, slightly moderated from 3.48% and 2.15% respectively, the slight decline in PAT margins is due to increased interest cost in FY24 considering increased working capital borrowings. The company achieved topline of ₹218.68 crore in 9MFY25 with PBILDT and PAT margins of 3.71% and 1.87% respectively. Going forward, scale of operations is expected to improve considering increased installed capacity and expected improvement in demand.

Efficient working capital management

The company's operating cycle remains comparatively small at 26 days in FY24 though slightly elongated from 18 days in FY23, mainly due to increase in collection period to 30 days in FY24 from 20 days in FY23. The company deals with entities engaged in construction, providing gas pipelines, and traders of pipes and poles among others. The company has to maintain inventory of 30 to 45 days for run its production process smoothly, whereas they procure raw materials from Steel Authority of India Limited on financial bank guarantees or on advance basis, resulting in average payables period of 24 days in FY24 (PY: 31 days). The company can extend payment of creditors with additional interest cost of 9% per annum but since company realises its sales revenue within 20-30 days, it generally doesn't extend payment of creditors and repay the guarantee earlier to take benefit of early payment discount and reuse the bank guarantee (BG) for further procurement. The company's growth prospect directly depends on availability of working capital limits as it has to procure raw materials from Steel Authority of India Limited either on Bank Guarantees or on advance basis, which limits procurement capabilities to the extent of working capital limits available, limiting output and subsequently revenue from operations. In May 2024, the company had availed enhancement in cash credit (CC) limit from ₹16 crore to ₹21 crore from Canara Bank. The company also uses (CC limit to the extent of 50% on one way conversion from CC to BG, in case of non-availability of sanctioned BG limit. Going forward to sustain the increase in scale of operations, the company needs to manage the working capital requirement more efficiently.

Comfortable capital structure

The company's capital structure continues to remain comfortable in FY24 as reflected by long-term debt to equity ratio and overall gearing ratio of 0.07x and 0.71x respectively as at March 31, 2024, compared to 0.08x and 0.63x respectively as at March 31, 2023, the slight moderation in overall gearing is owing to increased debt levels (majorly working capital) from ₹14.90 crore in FY23 to ₹20.26 crore in FY24. Further, the company is highly depend on bank guarantees for procurement of raw materials and BG limits are almost fully utilised throughout . Although, TOL/TNW has been improved in FY24 at 1.47x as at March 31, 2024, against 1.82x as of March 31, 2023.

Key weaknesses

Susceptibility to fluctuation in raw material prices

The production process of the ERW pipes doesn't requires much value addition on HR coils procured from Steel Authority of India Limited (SAIL) and thus, cost of raw materials constitutes over 90% of production cost. Prices of HR coils are highly volatile and fluctuation in prices can affect the profitability margins to great extent. ERW pipes manufacturing entities tends to have lower profitability margins due to limited value addition, which leads to lower cushion available to sustain high fluctuations in the raw material prices. However, to mitigate raw material fluctuation risk, company only book fifty percent order requirement of the month and remaining is procured in the month from distributors, which mitigates price fluctuations to some extent.

Supplier concentration risk owing to major concentration on single supplier

SMT procures majority close to 65-70% of company's RM requirement (HR Coils mainly) from SAIL, exposed to supply concentration risk due to high dependence and low bargain power though ensures supply continuity. It has been procuring majority HR coils from SAIL and other larger entities and relies heavily on these companies for its inventory procurements, which has to be booked monthly, based on estimated production for the month. Therefore, SMT faces significant supplier concentration risk as it buys from large players with which it has limited bargaining power. However, risk is mitigated to some extent, as the company has been getting repetitive orders from existing clientele and accordingly procuring raw material.

Presence in a highly competitive and cyclical steel industry

The steel pipes industry is highly competitive due to presence of organised and unorganised players and expanding applications of types of steel pipes. Although, over the years the industry has become more organised with the share of unorganised players reducing, but margins continue to be under pressure due to fragmented nature of the industry. The demand is highly sensitive to the change in prices. Due to cyclicality in product prices and resultant intense competition, margins may remain under pressure. The steel industry moves closely with business cycles including growth in economy and seasonal changes in the demand-supply situations in end-user segments.

Liquidity: Adequate

The company has earned gross cash accruals (GCA) of ₹6.41 crore in FY24 and is projecting to generate GCA of ~₹11.48 crore in FY25 against scheduled repayment obligations of just ₹0.65 crore, which reflects adequate repayment capabilities. The current and quick ratio stood at a satisfactory level of 1.24x and 0.82x, as on March 31, 2024. The company's operating cycle though moderated slightly, continues to remain small at 26 days in FY24 (PY: 18 days). However, due to working capital intensive operations and company is availing CC limit of just ₹21 crore and BG limit of ₹28 crore, average utilisation of fund-based limits remains satisfactory at 60.40% for 12 months ending December 2024, as the company majorly uses BGs for procurement, whereas utilisation of fund-based limits remains low.

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

Assigning 'Outlook' or 'Rating Watch' to Credit Ratings

Rating of Short Term Instruments

Manufacturing Companies

Iron & Steel

About the company and industry

Industry classification

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

SMT is engaged in manufacturing MS ERW black pipes, casing pipes, hollow section and steel tubular poles. The company was incorporated in 1971 by the founder Shankar Lal Aggarwal, with an installed capacity of 15,000 M.T per annum, which is currently increased to 70,000 M.T from April 01, 2024 onwards, from 60,000 M.T. at its sole manufacturing unit at 22nd Mile, Delhi - Hapur Road, P.O. Jindal Nagar, Hapur (U.P.). Company caters different sectors including agriculture & irrigation, water pipeline, construction industry, firefighting system and power sector industries. Company is having BIS certificate for IS: 1239, IS:1161, IS:3589, IS:3183 & IS:4270, IS:2713 & IS:4923, IS:9295 and as such, and has established trademark. The company manufactures M.S pipes in size and shapes round, hollow square, and rectangular section.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MMFY25 (UA)
Total operating income	304.59	323.39	218.68
PBILDT	10.59	10.10	8.12
PAT	6.54	5.40	4.09
Overall gearing (times)	0.63	0.71	0.70
Interest coverage (times)	6.42	3.85	4.39

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

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-Cash Credit		-	-	-	21.00	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	28.00	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-Cash Credit	LT	21.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (15-Mar-24) 2)CARE BB+; Stable (10-May-23)	-	-
2	Non-fund-based - ST-Bank Guarantee	ST	28.00	CARE A3	-	1)CARE A3 (15-Mar-24) 2)CARE A4+ (10-May-23)	-	-

LT: Long term; ST: 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-Cash Credit	Simple
2	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 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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