Vibhor Steel Tubes Private Limited

March 23, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	17.74 (Enhanced from 11.87)	CARE BBB; Positive (Triple B; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	37.50 (Reduced from 55.68)	CARE BBB; Positive / CARE A3 (Triple B; Outlook: Positive/ A Three)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	98.00 (Enhanced from 62.50)	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**153.24 (Rs. One Hundred Fifty-Three Crore and Twenty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the bank facilities of VSTPL continues 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 and its fixed off-take arrangement with Jindal Pipes Limited (JPL). The ratings further take into account improved though moderate capital structure and debt coverage indicators, adequate liquidity position and improved cash flow from operations during FY21 and 9MFY22. The aforementioned rating strengths are partially offset by the customer concentration risk with JPL contributing about 90% of the total operating income (TOI), moderate scale of operations, and decline in profitability margins during FY21 and 9MFY22. The ratings further continue to remain constrained by the working capital intensive nature of operations with reliance of the company on various short term financing options, vulnerability of profitability to fluctuating raw material prices and presence of the company in a highly fragmented and competitive ERW pipe manufacturing business with low entry barriers, thereby operating at low profitability.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in Gross cash accruals to more than Rs. 15 crore on sustained basis
- Return on capital employed (RoCE) of more than 12% on sustained basis
- Sustained improvement in the debt coverage indicators with PBILDT interest coverage above 4x and total debt to gross cash accruals lower than 4.5x

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in revenue and profitability, leading to lower than envisaged cash accruals
- Any un-envisaged debt funded capital expenditure or enhancement in limits leading to sustained deterioration in overall gearing beyond 2x
- Sustained deterioration in total debt to gross cash accruals (TDGCA) beyond 8x

Outlook: Positive

The outlook on the long-term rating of VSTPL has been revised from 'Stable' to 'Positive' considering the improvement in the performance of the company during the current fiscal and CARE Rating's expectation of improvement in its business and financial risk profile in the medium term. The same is expected on the back of steady growth in its scale of operations supported by healthy demand prospects from key end-user industries. CARE Rating's also expect increase in minimum offtake by JPL going forward.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters: The promoters of the company Mr. Vijay Kaushik and Mr. Vibhor Kaushik have an experience of over a decade in the steel pipe industry. Mr. Vibhor Kaushik is also an Electrical engineer graduated from USA. The promoters are backed by an experienced team who currently head various divisions at VSTPL. The promoters have an established and longstanding relation with JPL. The same is expected to continue to derive benefits to the company.

Association with JPL backed by a fixed off-take arrangement: The company has a binding agreement (MoU) with the principal JPL for a period of 6 years ending April, 2023. As per the agreement, the company has a minimum off take arrangement of 100,000 Metric Tons (MTs) for a year. In case of a shortfall, the VSTPL will be compensated at a rate of Rs.2000/MT. The selling price is decided on order basis based on the prevailing market price however; MoU also binds the principal to give a minimum price which covers the raw material (steel + consumables) and variable costs (labour and power).

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

Eligibility for subsidy: The company has set up its new facility in the state of Telegana for an added advantage of subsidies from the state government. The company is eligible for an interest subsidy of 9% on the capital expenditure done on plants and machinery. Further the company is also to receive a rebate of Rs. 1/unit on electricity charges and 100% reimbursement of SGST. The company is also eligible to receive capital investment subsidy of Rs.20 lakh.

Moderate capital structure and debt protection indicators: The total debt profile of the company largely consists of working capital borrowing, followed by term loans, and unsecured loans (USL), as against a tangible net-worth base of Rs.68.67 crore (including subordinated USL of Rs.6 crore) as on March 31, 2021. The capital structure of the company has improved to 1.03x as on March 31, 2021 on account of scheduled debt repayments and accretion of profits to reserves. Further, the debt coverage indicators also improved with total debt/GCA at 7.51x and interest coverage ratio at 2.35x as at the end of FY21.

Key Rating Weaknesses

Customer concentration risk: VSTPL derived approximately 90% of revenues from JPL during the last three years ending FY21. During FY21, the minimum offtake to JPL was on a pro rata basis, due to covid led restriction. JPL has a network of dealers across India and sells pipes 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 Ramsteel Tubes Limited, De Wit Bouwmachines B.V, Maharashtra Seamless Limited, etc. Further, the company derived ~53% of revenue from the state of Maharashtra and 47% from Telangana during FY21 and 9MFY22. In addition to domestic sales the company also exports ~3.5% to 4.5% of the TOI.

Moderate scale of operations: The TOI of the company saw a Y-o-Y decline of 7.36% and stood at Rs. 517.46 crore in FY21 (Audited) as against Rs.558.58 crore in FY20 (Audited) mainly due to impact of covid-19 where the nationwide lockdown impacted the revenue achievability of company with major disruptions in logistics which led to decline in capacity utilisations. Further, the company has already achieved Rs. 552 crores during 9MFY22 and Rs. 721 crore during 11MFY22. The increase in TOI in 9MFY22 is led by improved volume and realisations. The PBILDT level for FY21 declined and stood at Rs. 21.53 crore, which improved to Rs. 22.28 crore in 9MFY22. Resultantly, PAT level also declined and stood at Rs. 2.87 crore in FY21, despite decline in capital charges. However, the sales realisations improved in FY21 and 9MFY22 as against FY20. GCA continues to remain moderate at Rs. 9.46 crore in FY21. The scale of operations remains moderate, which restricts the company to reap the benefits of economies of scale.

Low capacity utilisation restricting operating leverages and resulting in low profitability margins: VSTPL operates two units at Sukheli, Maharashtra (installed capacity 125000 MT) and Mehboob Nagar, Telegana (installed capacity of 96000 MT). FY19 was the first full year of operation for the Mehboob Nagar, Telegana unit. The average capacity utilisation of the cumulative capacity remains low and stood in the range of 48-56% during last three years ended FY21 and 9MFY22 which restricts company to reap the benefits of operating leverages. The PBILDT margin declined by 134 bps to 4.16% as against 5.50% in FY20 mainly on higher absorption of fixed cost and higher directors' remuneration coupled with absolute moderation in revenue. Resultantly, PAT margin also declined in FY21. The ability of the company to improve per ton profitability with optimal utilisation of its capacities will be a key rating monitorable.

Susceptibility of profit margins to fluctuating raw material prices: The company requires hot rolled coil of steel and along with small quantities of zinc. Both the commodities have an inherent price fluctuation tendency. Further the company is exposed to global risk of raw material price fluctuation leading to uncertainty of profitability in the course of business. However, the principal helps the company mitigate the risk to an extent by utilising its position of key player in the market and jointly negotiating for raw material purchases.

Presence of the company in a fragmented and competitive industry: The company operates in the ERW pipe manufacturing industry which is highly fragmented in nature with presence of a number of unorganized 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

Liquidity of VSTPL is characterized by a moderate cushion in accruals vis-à-vis repayment obligations. The average utilisation of cash credit limit and channel financing limit stood at 38% and 72% during the last twelve months ended January 2022. The Gross cash accrual (GCA) is expected to be in the range of Rs.14 crore - Rs.20 crore as against the repayment obligations to the tune of Rs.1-1.5 crore in Q4FY22. During FY22, the company has availed covid loan amounting to Rs. 9.46 crore at interest rate of 7.5%, the repayment of which is scheduled in January 2024. Free cash balance stood at Rs.2.85 crores and margin money with banks (lien marked) to the tune of Rs.12.62 crore as on March 31, 2021. The company has increased the utilisation of its non-fund based facilities. Cash flow from operations improved and stood at Rs.78.79 crore in FY21.

Analytical approach: Standalone

Applicable Criteria
Rating Outlook and Credit Watch
Policy on default recognition
Manufacturing Companies
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Short Term Instruments

About the Company
VSTPL (CIN: U27109HR2003PTC035091) was founded by Mr. Vibhor Kaushik and Mr. 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 (1MW each at both the units) for captive consumption.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	558.58	517.46	552.39
PBILDT	30.72	21.53	22.28
PAT	5.06	2.87	7.58
Overall gearing (times)	1.75	1.03	0.79
Interest coverage (times)	1.96	2.35	3.76

A: Audited, UA: Unaudited

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2027	17.74	CARE BBB; Positive
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	37.50	CARE BBB; Positive / CARE A3
Non-fund-based - ST-BG/LC		-	-	-	75.00	CARE A3
Fund-based - ST-Vendor financing		-	-	-	23.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	17.74	CARE BBB; Positive	-	1)CARE BBB; Stable (16-Mar-21) 2)CARE BBB; Stable (09-Feb-21) 3)CARE BBB; Stable (04-Sep-20)	1)CARE BBB-; Stable; ISSUER NOT COOPERATING* (16-Mar-20)	1)CARE BBB; Stable (08-Feb-19)
2	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	37.50	CARE BBB; Positive / CARE A3	-	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)	1)CARE BBB-; Stable; ISSUER NOT COOPERATING* (16-Mar-20)	1)CARE BBB; Stable (08-Feb-19)
3	Non-fund-based - ST-BG/LC	ST	75.00	CARE A3	-	1)CARE A3 (16-Mar-21) 2)CARE A3 (09-Feb-21) 3)CARE A3 (04-Sep-20)	1)CARE A3; ISSUER NOT COOPERATING* (16-Mar-20)	1)CARE A3 (08-Feb-19)
4	Fund-based - ST-Vendor financing	ST	23.00	CARE A3	-	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 instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. Margins on Fund based limits	Margin of 25% on all inventory and book debts (Cover period 90 days)
II. Margins on Non-Fund based limits	10% Margin on Non fund based limits
III. Current ratio	Current ratio not below 1.30 times
IV. TOL/TNW	Not to exceed 3x times
B. Non financial covenants	
I Submission of Annual and Quarterly financial Statements	Company to submit latest audited balance sheet within 6 months of end of financial year. Quarterly financial results within 8 weeks of end of quarter
Ii Submission of stock and debtor's statement	Monthly stock statements to be submitted on or before 7th day of the month

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of 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: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
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