Hariom Pipe Industries Limited
(Erstwhile Hariom Concast & Steels Private Limited)
September 06, 2018

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	19.15 (reduced from Rs. 20.02 crore)	**CARE BB+; Positive (Double B Plus; Outlook Positive)**	**Reaffirmed**
Short-term Bank Facilities	4.50	**CARE A4+ (A Four Plus)**	**Reaffirmed**
Total	**23.65 (Rupees twenty three crore and sixty five lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Hariom Pipe Industries Limited (HPIL) continue to remain tempered by the moderate scale of operations, cyclicality associated with the iron and steel industry, intense competition due to fragmented nature of the steel market, susceptibility to volatility in raw material prices and working capital intensive nature of operations. The ratings also take into account the increase in total operating income along with improvement profitability margins, comfortable capital structure and debt coverage indicators in FY18 (refers to period April 01 to March 31) and proposed capex envisaged to be operational by Q1 FY19. However, the ratings also continue to derive strength from the modest track record of the company, experience and resourcefulness of the promoters in Iron and steel industry, integrated nature of manufacturing operations, diversified customer base with established relationship, diversified product profile serving wide spectrum of clientele and stable outlook for iron and steel industry.

Going forward, the ability of HIPL to sustain the growth in scale of operations, its profitability and its comfortable capital structure, to utilize the working capital funds effectively and to implement the project as envisaged without any cost and time overruns shall remain the key rating sensitivities.

<u>Outlook: Positive</u>

The outlook has been reaffirmed to 'Positive' on expectation of continued increase in scale of operations while maintaining profitability coupled with on-going capacity expansion to be completed without any time or cost overrun. The outlook may be revised to 'Stable' if the scale of operations on account of capacity expansion does not improve as anticipated or there is significant moderation in financial risk profile of the company.

Detailed Description of the key rating drivers

Key Rating Weaknesses

Moderate scale of operations

The company's scale of operations has been consistently growing over the years, since inception. During FY15 to FY18, the Total Operating Income of HPIL grew at a CAGR of 11%. However, the scale of operations continues to remain subjected to the competitive nature of the business segment

Cyclicality of the industry

Steel industry is cyclical in nature. Its growth is interlinked with the growth of the economy at large and, in particular, with the steel user industries such as railways, automobile, telecom and others. With HPIL's products being steel related materials, the demand and prices for the same are also cyclical and volatile depending upon the fortunes of the industry.

Intense competition due to fragmented nature of the industry

HPIL is engaged in the manufacturing of M.S. Billets, H.R. Strips, M.S. Tubes and Scaffolding business, which is primarily dominated by large players and characterized by high fragmentation and competition due to the presence of numerous players in India owing to relatively moderate entry barriers. High competitive pressure limits the pricing flexibility of the industry participants which induces pressure on profitability.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Susceptibility to volatility in raw material prices
The company does not have any backward integration for sourcing its basic raw material (i.e. pig iron/ sponge iron) and purchases the same from open market. Since the raw material is the major cost driver (around 57% of the cost of sales in FY18 and 60% of the cost of sales in FY17), the profitability margin of the company is susceptible to fluctuation in raw material prices. Any volatility in the raw material prices could not be passed on to the customers, always, which exposes the profitability margins to any adverse fluctuations.

Working capital intensive nature of operations
The operations of the company are working capital intensive in nature as reflected by working capital cycle of 133 days in FY18 (PY: 135 days). HPIL is engaged in manufacturing of various steel products which requires high inventory due to lead time involved in processing the raw material to final finished product. The company extends a credit period of around 1.5 to 2 months to its customers being associated with the company for a long period of time. Despite presence in working capital intensive industry, the company managed to utilize the working capital facility efficiently and utilization levels remained on a modest side. The average fund based working capital utilization of the company stood at 73% and the average maximum working capital utilization stood at 79% for trailing 12 months ending July 2018 indicating moderate reliance on bank finance to meet the working capital requirement.

Project implementation risk
The company has planned on undertaking a capacity expansion project on its existing manufacturing premises, with an estimated project cost of Rs. 45.92 crore. The project shall be funded by equity (37%) and proposed term loan (63%). As on August 15^{th} 2018, the company has incurred 14% of the total project cost, funded by the promoters. The company envisages on initiating the commercial operations for the said project, in the month of February 2019.

Key Rating Strengths
Moderate track record and experienced and resourceful promoters in Iron and Steel industry
HCSPL was promoted by Mr Roopesh Kr Gupta, Mr Shailesh Kr Gupta and Mr Rakesh Kr Gupta in 2007. All the promoters are graduates in different fields i.e. commerce and arts, having experience of about three decades in steel industry. Prior to incorporating HCSPL, the promoters also worked in family owned companies engaged in steel industry. Long and satisfactory track record of operation has helped the company to establish satisfactory relationship with the customer and suppliers and has helped the company to grow its business over the years. Furthermore, promoters are resourceful and have been bringing in need based funds in the company in the form of preference share capital and unsecured loans to manage business operations.

Integrated nature of operations
The manufacturing facility of the HPIL is entirely integrated i.e. starting from manufacturing of MS Billet to the manufacturing of MS Tubes and Scaffolding accessories in the same premises at five different units. The company has progressive assembly line, wherein the first unit's finished products constitute the raw material for second unit; further second unit's finished products are processed in the third unit, so on and so forth. Not-withstanding the aforementioned, the manufacturing leaves room for customization as and when required. As a result, the company manages to minimize the logistics and power cost. Further, HIPL has the flexibility to serve to a wide spectrum of clients, across various sectors, as most of its products may directly act as input to other products manufactured within the unit or could also be sold to other entities as finished products.

Diversified customer base with long term relationship
HPIL has a well-diversified customer base and in FY18, the company had 369 active dealers in and around Southern India, as compared to 935 in FY17. The company has a long term association with its clientele, which serves in garnering repeat orders. Further, majority of the revenue contribution is from Southern India. Although majority of the revenue was generated from South India, the company has been concentrating on expanding its operations to other regions. Further, in order to foray across Maharashtra and Orissa, HPIL has already started identifying dealers to penetrate the said markets.

Diversified product profile with established brand name
HPIL is engaged in the business of manufacturing of MS Billets and HR coils/strip of varied thickness, width and different types of grades depending upon the requirements of the customer. The company is also engaged in the manufacturing of steel tubes of different shapes and sizes which mainly cater to the infrastructure sector. The products are sold under the brand name of "HARIOM" which has been in the industry for around one decade and is widely recognized in the local market.

Year-on-year improving operational performance resulting in increasing total operating income with satisfactory profitability margins
HPIL registered a growth of 20.38% in FY18 over FY17, as the total operating income increased from Rs 87.53 crore in FY17 to Rs. 105.37 crore in FY18. The growth was primarily on account of increased in capacity and sales coupled with increase in realization per unit across the product portfolio.
The profitability of HPIL, as marked by the PBILDT margin and APAT margin improved by 641 bps and 429 bps, to 14.70% and 6.15% in FY18 respectively due to increase in sales realization per unit along with absorption of overheads on account of increase in scale of operations and decrease in cost of raw material consumed. Also, the reduction in contribution of trading segment to the total revenue of HPIL, on a y-o-y basis from FY16-FY18, has led to improved operating margins. Not-withstanding the afore-mentioned, the interest expenses remained in line with the previous years as the average cash credit utilization was reported at 73% for the last twelve months ended July 2018.

Comfortable capital structure with debt coverage metrics
The debt-equity ratio and overall gearing ratio improved from 0.43x and 1.44x as on March 31st 2017 to 0.34x and 1.11x as on March 31st 2018, respectively, continuing to remain comfortable. The improvement was observed due to the marginal reduction in term loan and working capital borrowings as on March 31st 2018.

Stable outlook for Iron and Steel industry
The recently formed Global Steel Forum has acknowledged India's capacity expansion of steel as a function of growing consumption in the domestic market. The higher consumption crucially dependent on infrastructure investment from public and private sources in port-led and rail and road-led development, more spending by the household and the government in real estate, affordable housing, smart cities, would enable the demand to grow by a minimum 7-8% from the current level of 5.2%. A brighter market demand would make India's crude steel production to grow by a minimum 8% to reach 108 MT by 2018 to enable it to occupy the second position in global steel production.

Prospects of industry depend upon
Going forward, the prospects of the steel industry would majorly rely on the urbanization trend, changes in pro-business reforms, allocation of iron ore blocks and regulatory approvals with respect to the same, coupled with the any variations in trade policies with China and Russia.

Analytical Approach: Standalone
Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
Rating Methodology-Steel Companies
Rating Methodology-Manufacturing Companies

About the company
Hyderabad based, Hariom Pipe Industries Limited (HPIL), erstwhile Hariom Concast & Steels Private Limited, was incorporated in 2007. HPIL is promoted by Mr Roopesh Kumar Gupta (Managing Director), Mr Shailesh Kumar Gupta (Whole-time Director) and Mr Rakesh Kr Gupta (Director). The company is engaged in manufacturing of various steel products such as Mild Steel Billets, Hot Rolled Strips, Mild Steel Tubes and Scaffolding, at its manufacturing unit located at Balanagar Mandal, Mahabubnagar District, Telangana State.
The company is a ISO 9001:2015 and IS 2830:2012 certified company and sells its steel products under the brand name of 'HARIOM'. The company generates almost all of its revenue from southern region which includes Andhra Pradesh, Karnataka, Kerala, Tamil Nadu and Telangana. The sales are executed through brokers/dealers. However for local sales, HIPL prefers retailers and in some instances direct sales to the respective clients.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	87.53	105.37
PBILDT	7.25	15.49
PAT	1.63	6.48
Overall gearing (times)	1.44	1.11
Interest coverage (times)	2.67	5.39

A: Audited
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable

Rating History for Last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	January 2019	0.85	CARE BB+; Positive
Fund-based - LT-Term Loan	-	-	September 2021	1.17	CARE BB+; Positive
Fund-based - LT-Cash Credit	-	-	-	18.00	CARE BB+; Positive
Non-fund-based - ST-Bank Guarantees	-	-	-	0.50	CARE A4+
Non-fund-based - ST-Letter of credit	-	-	-	4.00	CARE A4+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	0.85	CARE BB+; Positive	-	1)CARE BB+; Positive (14-Mar-18)	-	-
2.	Fund-based - LT-Term Loan	LT	1.17	CARE BB+; Positive	-	1)CARE BB+; Positive (14-Mar-18)	-	-
3.	Fund-based - LT-Cash Credit	LT	18.00	CARE BB+; Positive	-	1)CARE BB+; Positive (14-Mar-18)	-	-
4.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A4+	-	1)CARE A4+ (14-Mar-18)	-	-
5.	Non-fund-based - ST-Letter of credit	ST	4.00	CARE A4+	-	1)CARE A4+ (14-Mar-18)	-	-

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