Scoda Tubes Limited

October 16, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	12.00	**CARE BB-; Stable (Double B Minus; Outlook: Stable)**	**Assigned**
Short-term Bank Facilities	10.00	**CARE A4 (A Four)**	**Assigned**
Total	**22.00 (Rupees Twenty Two Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Scoda Tubes Limited (STL) is constrained on account of its susceptibility of the operating profitability to volatile raw-material prices as witnessed during FY19 (refers to the period from April 01 to March 31), moderate debt coverage indicators and stretched liquidity of STL. The rating is further constrained on account of its working capital intensive nature of operations, foreign exchange currency fluctuation risk, and its presence in highly fragmented and competitive steel industry. The ratings also take the note of the on-going capital expansion albeit some comfort derived from the project being under advanced stages of completion.

The ratings, however, derives strength from experienced promoters, growth in the scale of operations, moderate order book position and comfortable capital structure.

STL's ability to sustain the improvement in its scale of operations coupled with improvement in its profitability while efficiently managing its working capital requirements would be key rating sensitivities. Further, stabilization of the enhanced capacity shall also remain crucial from credit perspective.

Detailed description of the key rating drivers

Key Rating Weaknesses

Volatility in operating margins

During FY19, PBILDT margin declined and stood at 4.80% as against 8.31% during FY18 on account of increase in raw material costs along with increase in over-head expenses. During FY19, PAT margin stood low at 0.46% as against 1.23% in FY18. Gross cash accruals (GCA) level stood moderate at Rs.1.25 crore in FY19 from Rs.1.13 crore in FY18 due to higher depreciation expenses.

Moderate debt coverage indicators

Debt coverage indicators of the company stood moderate marked by total debt to GCA at 12.83 times as on March 31, 2019 as against 13.29 times as on March 31, 2018. Interest coverage ratio remained in same line at 1.46 times for FY19.

On-going expansion project

STL is undergoing an expansion project to increase its production capacity from 250 metric tonnes (MT) of SS pipes and tubes per month to 450 (MT) per month at current operating facility. The estimated projected cost of Rs.4.00 crore which will be funded through a term loan of Rs.2.00 crore and balance through unsecured loans from directors.. Company has incurred major cost till September 2019 and project is expected to get completed by October 2019. Commercial operations are expected to commence from November 2019.

Presence in highly fragmented and competitive nature of steel 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. 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. Hence, it is susceptible to slowdown in the end-user industries as well as global economic slowdown.

Margins are susceptible to volatility in prices of key raw materials and forex fluctuation risk

STL's main raw materials are Stainless Steel (SS) stripes and the prices of which are highly volatile. Furthermore, the company has not yet entered in any long-term contract with the suppliers with regard to either quantity or price. As STL is planning to procure required material from the large industrial units it may result into lower bargaining power of STL and affects profitability of the company. STL also imports material from China and exports to European countries like Belgium, Italy, Germany etc thus exposing it to forex risk.

Further during FY19 exports stands at 17.05% as against 11.36% during FY18 and imports stands at 44.44% during FY19 as against 45.09% during FY18. Although, company has a natural hedge to an extent, absence of any hedging practise exposes it to foreign exchange fluctuation risk.

Key Rating Strengths

Experienced promoters

STL was promoted by Mr. Dhanraj Khatri and Mr. Mahesh Patel having an experience of more than a decade in steel industry. Currently, STL is managed by Mr. Jagrut Patel having five years of experience in same line of business along with his experience in construction industry. He handles overall operations of the company. The overall management of the firm is competent in their respective areas of operation and is supported by other directors through their expertise.

Growing scale of operations with moderate order book position

During FY19 (A), STL registered a significant growth of 75% in its TOI which stood at Rs.84.40 crore as against Rs.48.27 crore during FY18 on account of demand from customers.
As on September 25, 2019, STL has an order book position amounting to Rs.36.69 crore consisting of export orders of Rs.11.42 crore and domestic orders of Rs.25.27 crore which will be executed in timeline of 3-4 months.

Comfortable capital structure

Write how the debt has moved and increased. Then mention that promoters have infused unsecured loans towards the project which are subordinated to debt and hence considered as net worth leading to improvement in capital structure.
As on March 31, 2019 capital structure stood comfortable marked by overall gearing ratio of 0.90 times as against 1.08 times as on March 31, 2018 mainly on account of increased networth position due to addition of unsecured loans in form of quasi capital.

Liquidity analysis:

Stretched liquidity position

During FY19, operating cycle although improved but continued to remain elongated at 108 days as against 164 days in FY18. Further, with increase in the scale of operations, the average working capital limits utilization during past twelve months ended on August 2019 remained high at 90%. Cash flow from operating activity stood negative at Rs.1.29 crore during FY19 as against positive amount of Rs.1.85 crore during FY18. STL has minor cash and bank balance of Rs.0.32 crore as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning outlook to credit ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology - Manufacturing Companies]
[Financial ratios-Non-Financial Sector]

About the company

Scoda Tubes Limited (STL) was promoted by Mr. Dhanraj Khatri and Mr. Mahesh Patel in 2008 as closely held limited company, engaged in manufacturing of stainless steel pipes & stainless steel welded tubes. The company operates from manufacturing facilities located at Kadi (Gujarat) with an installed capacity of manufacturing 250 Tonnes per month (MTPM) as on March 31, 2019. STL is under-going an expansion project for capacity expansion amounting to Rs.4.00 crore which will enhance its capacity from 250 MTPM to 400 MTPM.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	48.27	84.40
PBILDT	4.01	4.05
PAT	0.60	0.39
Overall gearing (times)	1.08	0.90
Interest coverage (times)	1.46	1.46

A: Audited.

STL has registered Total Operating Income of Rs.45.50 crore till September 25, 2019.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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-Cash Credit	-	-	-	10.00	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	1.00	CARE A4
Non-fund-based - ST-Letter of credit	-	-	-	6.00	CARE A4
Non-fund-based - ST-Bills Discounting / Bills Purchasing	-	-	-	2.00	CARE A4
Fund-based - ST-Packing Credit in Foreign Currency	-	-	-	1.00	CARE A4
Fund-based - LT-Proposed fund based limits	-	-	September 2024	2.00	CARE BB-; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BB-; Stable	-	-	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A4	-	-	-	-
3.	Non-fund-based - ST-Letter of credit	ST	6.00	CARE A4	-	-	-	-
4.	Non-fund-based - ST-Bills Discounting / Bills Purchasing	ST	2.00	CARE A4	-	-	-	-
5.	Fund-based - ST-Packing Credit in Foreign Currency	ST	1.00	CARE A4	-	-	-	-
6.	Fund-based - LT-Proposed fund based limits	LT	2.00	CARE BB-; Stable	-	-	-	-

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name - Mr. Kalpesh Patel
Contact no.- (079) 40265611
Email ID- kalpesh.patel@careratings.com

Business Development Contact
Name: Mr. Vimlendu Mishra
Contact no. : (079) 40265640
Email ID: vimlendu.mishra@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**