Srikalahasthi Pipes Ltd

July 09, 2020

Ratings

Facilities/ Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	427.75	**CARE A+; Stable; ISSUER NOT COOPERATING* (Single A Plus; Outlook: Stable; ISSUER NOT COOPERATING*)**	Issuer Not Cooperating; Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable) on the basis of best available information
Short term Bank Facilities	370.00	**CARE A1+; ISSUER NOT COOPERATING* (A One Plus; ISSUER NOT COOPERATING*)**	Issuer Not Cooperating; Based on best available information
Long-term/Short-term Bank Facilities	**797.75 (Rs. Seven hundred and ninety seven crore and seventy five lakh only)**		
Commercial Paper	-	-	Withdrawn

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

Srikalahasthi Pipes Ltd (SPL) has not paid the surveillance fees for the rating exercise agreed to in its Rating Agreement. Furthermore, though the company has submitted majority of the required data for the review exercise, CARE has not been given the opportunity to carry out a discussion with the senior management to seek clarifications on various issues including the future growth strategy and capital expenditure plans.

In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

The ratings on SPL's bank facilities will now be denoted as **CARE A+; Stable/CARE A1+; ISSUER NOT COOPERATING***.

Further, CARE has withdrawn the rating assigned to the commercial paper issue of SPL with immediate effect, at the request of the company and as there is no amount outstanding under the issue as on date.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

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The revision in the ratings assigned to the bank facilities of SPL is on account of the inability to monitor the performance of the company going forward due to non-cooperation by the issuer. The ratings take note of the increase in working capital intensity of operations of the company, marked by significant increase in receivables, resulting in negative cash flow from operations during FY20 (refers to the period April 1 to March 31). Furthermore, the ratings take note of the ongoing large-size capital expenditure project exposing the company to pre and post project implementation risk. The company now proposes to finance a part of the project through debt, as against earlier considered plan of funding entirely through internal sources.

The ratings continue to draw strength from the long and satisfactory track record of operations, established position of the group in the domestic Ductile Iron (DI) pipe segment with favorable location of the plant and high capacity utilization, improvement in profitability in FY20, comfortable capital structure and liquidity position.

The ratings also factor in the exposure to volatility in input prices and risk of foreign exchange fluctuation.

Detailed description of the key rating drivers

Key Rating Strengths

Long and satisfactory track record of operations

Initially promoted by LANCO group of Hyderabad, SPL was acquired by Kolkata based Electrosteel Castings Limited (ECL) in March 2002. The company is a part of the Electrosteel Group, Kolkata, which has interest mainly in the manufacturing of DI pipes and fittings. The group has a track record of more than six decades of operations.

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

**Issuer did not cooperate; Based on best available information*

Established position of the group in the domestic DI pipe segment with favorable location of the plant
SPL predominantly operates in Southern India with its manufacturing unit located at Srikalahasthi, a small town in Andhra Pradesh. It has close proximity to sources of major raw materials- imported coking coal through Vizaag port and iron ore from mines of Karnataka. In addition, due to presence of limited players in the southern region, SPL has a significant advantage over others in terms of freight cost. SPL along with ECL hold dominant position in the domestic DI pipe market with an aggregate DI pipe production capacity of 5,80,000 mtpa (SPL-3,00,000 mtpa and ECL – 2,80,000 mtpa).

High capacity utilization
The capacity utilization of the DI pipe continued to be more than 95% in FY20. The pig iron facility, majorly a backward integration for the manufacturing of DI pipes, achieved utilization of more than 100% in FY20.

Improvement in profitability in FY20
The income from operations increased by 6.61% y-o-y in FY20 driven by increase in gross realizations of DI pipes (even though volumes moderated marginally) and by increase in sales of SPL's intermediate manufactured products like coke, ferro alloys and pig iron.
The PBILDT margin improved from 12.50% in FY19 to 16.08% in FY20 on account of higher realizations and improved efficiency measures resulting in lower consumption of iron ore/fines and coking coal. With higher operating profit, the interest coverage improved from 4.84x in FY19 to 5.82x in FY20, even though there was increase in finance cost.

Comfortable capital structure
The capital structure continued to be comfortable with overall gearing of 0.45x as on March 31, 2020 (0.48x as on March 31, 2019) and Total Debt/GCA of 2.92x as on March 31, 2020 (3.69x as on March 31, 2019).

Liquidity: Strong
SPL's liquidity position is strong marked by free fixed deposits of about Rs.360 crore as on May 31, 2020. However, same is expected to reduce with the company utilizing the same for capex in FY21 and FY22. The company has not availed any moratorium from its banks. In FY20, it had earned a GCA of Rs.218 crore and had met term debt obligation of Rs.34 crore. It has a term debt repayment of Rs.44 crore in FY21 and cash accruals in the year are expected to be sufficient to meet such payments. Liquidity is also supported by unutilized lines, where average utilization stood at 61% of fund based limits of Rs.289 crore (on an average basis) for the last 12 months ended May 2020.

Key Rating Weaknesses
Increased working capital intensity of operations
Working capital intensity increased in FY20 marked by operating cycle of 121 days over 102 days in FY19, majorly due to increase in receivables. This also led to negative cash flow from operations for the company in FY20 despite increase in GCA over FY19.

Project Risk
In its ongoing projects, SPL has commissioned the 9x2 MVA ferro alloy plant at a cost of Rs.63 crore in FY20. It has further planned capex of about Rs.450 crore to increase the capacity of DI pipes from 300,000 mtpa to 500,000 mtpa. The capex would also include increase in capacity of sinter plant, mini blast furnace (from 275,000 mtpa to 500,000 mtpa), finishing line and other auxiliary capex. The capex is expected to be funded through a term loan of Rs.200 crore (financial closure obtained) and balance through internal accruals and the company's existing liquid reserves. Earlier the company had proposed to finance the project entirely through internal sources.
Given the amount of expected investments, there exists project execution, stabilization and marketing risks.

Volatility in input price
Raw material consumption is the single largest cost component for SPL. With company having no backward integration for its primary raw materials (such as coking coal, iron-ore), it has to resort to open market purchases at the prevailing market prices. Hence, any adverse movement in raw material price without any corresponding movement in finished good price might affect the performance of the company.

Foreign exchange fluctuation risk
SPL sources majority of its raw material requirements (coking coal) through imports and with negligible exports, SPL is a net importer, thus exposing it to foreign exchange fluctuation risk. Moreover, to part fund its capex programme in the past, the company has availed ECBs. However, since SPL hedges its foreign currency exposure related for import of coking coal and current portion of repayment obligations of ECB loans; foreign exchange fluctuation risk is mitigated to a certain extent.

Analytical approach: Standalone

Applicable Criteria
Policy in respect of Non-cooperation by issuer
Policy on Withdrawal of ratings
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Rating Methodology- Steel Sector

About the Company
Incorporated in 1991, Srikalahasthi Pipes Limited (SPL; erstwhile known as Lanco Industries Ltd), is engaged in manufacturing of Ductile Iron (DI) spun pipes (3,00,000 tonnes p.a.) which contributed to 84% of the sales in FY20. As a part of backward integration it has manufacturing facilities of pig iron (2,75,000 tonnes p.a.), port-land slag cement (90,000 tonnes p.a.), sinter (5,00,000 tonnes p.a), ferro alloys (9x2 MVA) and also a captive power plant of capacity 14.5 MW. The Company's integrated manufacturing facility is located in Chittor, Andhra Pradesh.

Brief Financials (Rs. crore)- Standalone	FY19 (Audited)	FY20 (Abridged)
Total operating income	1567.79	1671.42
PBILDT	195.94	268.72
PAT	117.54	187.68
Overall gearing (times)	0.48	0.45
Interest coverage (times)	4.84	5.82

Status of non-cooperation with other CRA: Not applicable

Any other information: Not Applicable

Rating History for 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
Non-fund-based - ST-BG/LC	-	-	-	370.00	CARE A1+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Term Loan-Long Term	-	-	Sep 2024	157.75	CARE A+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE AA-; Stable on the basis of best available information
Fund-based - LT-Cash Credit	-	-	-	270.00	CARE A+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE AA-; Stable on the basis of best available information
Short Term Instruments-CP/STD	-	-	-	0.00	Withdrawn

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	370.00	CARE A1+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A1+ (04-Jul-19) 2)CARE A1+ (07-May-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (15-Feb-18) 2)CARE A1+ (10-Jul-17)
2.	Term Loan-Long Term	LT	157.75	CARE A+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE AA-; Stable on the basis of best available information	-	1)CARE AA-; Stable (04-Jul-19) 2)CARE AA-; Stable (07-May-19)	1)CARE AA-; Stable (06-Jul-18)	1)CARE AA-; Stable (15-Feb-18) 2)CARE A+; Stable (10-Jul-17)
3.	Short Term Instruments-CP/STD	ST	-	-	-	1)CARE A1+ (04-Jul-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (15-Feb-18) 2)CARE A1+ (10-Jul-17)
4.	Fund-based - LT-Cash Credit	LT	270.00	CARE A+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE AA-; Stable on the basis of best available information	-	1)CARE AA-; Stable (04-Jul-19) 2)CARE AA-; Stable (07-May-19)	1)CARE AA-; Stable (06-Jul-18)	1)CARE AA-; Stable (15-Feb-18) 2)CARE A+; Stable (10-Jul-17)

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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