

## Swastik Pipe Ltd

April 27, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	124.80	<b>CARE BBB-; ISSUER NOT COOPERATING (Triple B Minus; ISSUER NOT COOPERATING)</b>	Issuer not cooperating; Based on best available information
Short-term Bank Facilities	55.00	<b>CARE A3; ISSUER NOT COOPERATING (A Three; ISSUER NOT COOPERATING)</b>	Issuer not cooperating; Based on best available information
<b>Total facilities</b>	<b>179.80 (Rupees One Hundred Seventy Nine Crore And Eighty Lakh Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Swastik Pipe Ltd to monitor the ratings vide e-mail communications/letters dated February 20, 2017, February 28, 2017, February 27, 2017, March 14, 2017, and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. 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 Swastik Pipe Limited's bank facilities will now be denoted as **CARE BBB-; ISSUER NOT COOPERATING/CARE A3; ISSUER NOT COOPERATING**.

The ratings of SPL derive strength from the extensive experience of the promoters and its long track record of operations in the steel pipe industry with an established brand name. The ratings also factor in SPL's moderate financial risk profile during FY16, its diversified product portfolio and client base.

These ratings strengths are, however, partially offset by limited value addition in its finished product leading to low profitability margins, its working capital intensive nature of operations and cyclical nature associated with the steel industry.

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

### Detailed description of the key rating drivers

At the time of last rating in March 31, 2016 the following were the rating strengths and weaknesses

#### Key Rating Strengths

**Experienced promoters and long track record of operations-** The company was incorporated in 1973 and has long track record of operations in ERW Pipes and CR coil industry. The company is promoted by Mr. D N Bansal, Managing Director, who has an experience of more than 40 years in the ERW pipes and CR sheet coil manufacturing business.

**Reputed and diversified client base-**The company has marketing arrangement through dealer network of majorly in northern India. SPL has a reputed client base spanning across India and abroad.

**Diversified product portfolio-** SPL has two main divisions which is into manufacturing of ERW pipes and CR Coil/strips. During FY15, the pipe/tubes division contributed around 57% of the total sales while the CR sheets and coils division contributed about 43% of the total sales. Thus said product diversification provides mitigation against any fluctuation in the income of the company due to slowdown in any particular industry.

**Moderate Financial Risk Profile-** SPL has moderate financial risk profile characterised by average profitability indicators, moderate capital structure and debt coverage indicators. Although, the company's operating income has declined y-o-y by 15.62% during FY16 but profitability margins has improved to 4.79% during the period. The margins remain low because of the limited value addition in the product of the company. Also, the company's overall gearing and total debt to GCA have moderated as on March 31, 2016 owing to relatively higher debt taken.

### Key Rating Weaknesses

**Working capital intensive nature of business operations-** The company has a working capital intensive nature of business operations as exhibited by operating cycle of 90 days. The company has to maintain adequate inventory levels resulting in high average inventory period of 64 days in FY16. The higher inventory holding levels coupled with high collection period and low creditor days has resulted in a high operating cycle.

**Cyclicality associated with the steel industry** - The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Furthermore, the value addition in the steel products like pipes and sheets is also low, resulting into low product differentiation in the market. The steel producers are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility in the steel prices.

### Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

### About the Company

Swastik Pipe Limited (SPL) was incorporated in 1973 and is primarily engaged in the production of ERW (Electric Resistance Welded) pipes and CR Sheets & coils for automobiles, infrastructure and water transportation purposes. SPL is promoted by Mr D N Bansal, son in law of Mr B C Jindal. SPL has two manufacturing plants located in Bahadurgarh (Haryana) and Kotwan (Uttar Pradesh) with a capacity of 1,25,000 pipes and 2,00,000 MT of CR coils/ strips.

The company manufactures and sells its pipes in the domestic and export market under the banner of T.T Swastik Brand. The company's product portfolio includes black and galvanized steel tubes and pipes, CR Coils, CR Sheets, HRPO coils, HRPO sheets. The company markets its products through a mix of dealer network and sales to EPC contractor/institution sales.

During FY16 (refers to the period April 01 to March 31), SPL has reported total operating income of Rs.578.64 crore with PAT of Rs.3.95 crore.

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.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.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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	-	-	-	124.80	CARE BBB-; ISSUER NOT COOPERATING
Non-fund-based - ST-Bank Guarantees	-	-	-	55.00	CARE A3; ISSUER NOT COOPERATING

**Annexure-2: Rating History of last three years**

Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
Fund-based - LT-Cash Credit	LT	124.80	CARE BBB-; ISSUER NOT COOPERATING	-	1)CARE BBB- (16-May-16) 2)CARE BBB- (04-May-16)	-	-
Non-fund-based - ST-Bank Guarantees	ST	55.00	CARE A3; ISSUER NOT COOPERATING	-	1)CARE A3 (16-May-16) 2)CARE A3 (04-May-16)	-	-

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CIN - L67190MH1993PLC071691