Vibhor Steel Tubes Private Limited (Revised)
February 8, 2019

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	54.57	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Assigned**
Short-term Bank Facilities	94.60	**CARE A3 (A Three)**	**Assigned**
Total	**149.17 (One Hundred and Forty Nine Crores and Seventeen lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to the bank facilities of Vibhor Steel Tubes Private Limited (VSTPL) derive its strength from experienced promoter's, long track record of the company's operations along with strong association with the principal Jindal Pipes Limited for the off take arrangement providing revenue visibility over medium term, improved scale of operations during FY18 (refers to April'17 to March'18) backed by completion of capital expenditure which also resulted in improvement in operating profit margins during 8MFY19 (refers to April'18 to November'18).

The ratings are however constrained by risk of vulnerability of profitability owing to fluctuating raw material prices, working capital intensive nature of operations considering reliance of the company on various short term financing options and thereby moderate capital structure, fortunes of the company are linked to that of the principal.

The ability of the company to continue being in association with the principal along with stable margins and improve capital structure and maintaining liquidity is a key rating sensitivity.

Detailed description of 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 company has a binding off-take arrangement with Jindal Pipes Limited for a medium term.

Strong association with principle

The company has a binding arrangement with the principle, Jindal Pipes Limited (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 mts for a year. As per the arrangement the company is bound to receive a minimum amount incase the order goes below 100,000 mts in a year which covers most of the fixed costs. The selling price is decided on order basis based on the prevailing market price however; MOU also binds the principle to give a minimum price which covers the raw material (steel + consumables) and variable costs (labour and power).

The ability of the company to recover the said compensation in case of the drop in offtake is a key rating monitorable.

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 lakhs.

Financial risk profile marked by growth in the scale of operations during FY18 and improved profitability during 8MFY19

VSTPL during FY18 has set up a new plant in Mehboob Nagar, Telegana with an installed capacity of 96000 metric tonnes (mts). FY19 is the first full year of operation for the new plant. This is in addition to the established capacity of 125000 mts on Sukheli, Maharashtra operating at 70% capacity utilisation during FY18. While the plant in Maharashtra is equipped for manufacturing of pipes upto 8 inch of diameter the plant in Telangana is equipped to produce pipes for upto 12 inch of diameter. Jindal Pipes Limited (JPL) has started using the supplies of the company from their Telengana plant to cater to Telangana, Andhra Pradesh, Goa, Karnataka.

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

With the back of capacity enhancement, the TOI (Total Operating Income) of the company increased by 52.32% (yoy) and reached Rs. 450.13 crores in FY18 as against Rs. 295.50 crores in FY17. The PBILDT margin dropped by 218 bps and stood at 6.81% in FY18 as against 8.99% in FY17, on account of increase in raw material cost. Owing to the improved capacity utilisation of Telengana plant the company has achieved a revenue of Rs.374.91 crores in 8MFY19 (refers to period April'18 to November'18) with an improved PBILDT margin of 7.31%.

Key Rating Weaknesses

Working capital intensive nature of operations

The company has a collection period of 34 days and inventory period of 46 days, while the creditors of the company stood at 32 days thus resulting in the operating cycle of 47 days as on March 31, 2018. The company relies heavily on the facilities of cash credit and channel financing along with the creditors to bridge the working capital gap. The overall gearing of the company remained moderate at 1.48x as on March 31, 2018 as against 1.17x as on March 31, 2017. The utilisation of fund based limits remained at an average of 84% for 12 months ended November'2018.

Moderate Liquidity position and debt protection matrices

The company has a moderate liquidity position marked by a cash and bank balance of Rs. 12.02 crores as on March 31, 2018 and gross cash accruals of 14.72 crores for 8MFY19 as against repayment obligation of Rs.4.67 crores. TDGCA stood at 5.48x as on March 31, 2018 as against 4.09x as on March 31, 2017.

Susceptibility of profit margins owing 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. As of march 31, 2018 the company had a raw material inventory days of 22 days as compared to 39 days as on march 31, 2017. Further the company is exposed to global risk of raw material price fluctuation leading to un-certainty of profitability in the course of business. However the principle 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.

Applicable criteria:

Criteria on assigning Outlook to Credit Rating
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Financial Ratios-Non Financial Sector
Rating Methodology-Steel Companies
Rating Methodology-Factoring Linkages in Ratings

About the company:

Vibhor Steel Tubes Private Limited (VSTPL) 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 company has quality certifications of ISO 9001:2000, ISO 9001:2008, BIS IS 3601:2006, BIS IS 3589:2001, BIS IS 1239:PART 1:2004. The company has a binding off-take arrangement with Jindal Pipes Limited for a medium term. The company has a combined manufacturing capacity of 2.21 lakh metric tonnes per annum from its two plants one in Maharashtra and the other one in Telengana.

Brief Financials (Rs. crore)	FY17(A)	FY18 (A)	8MFY19(UA)
Total operating income	295.50	450.13	374.91
PBILDT	26.58	30.65	27.40
PAT	9.88	11.41	10.97
Overall gearing (times)	1.84	1.98	1.85
Interest coverage (times)	3.42	2.61	3.43

A – Audited; UA – Un-audited

Status of non-cooperation with previous CRA: CRISIL Rating Limited
CRISIL BB/Stable/CRISIL A4+ Issuer not Cooperating based on best available information as on May 28, 2018

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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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.

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	-	-	March 31, 2027	16.57	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	87.50	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	45.10	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 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	16.57	CARE BBB; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	87.50	CARE BBB; Stable	-	-	-	-
3.	Non-fund-based - ST-BG/LC	ST	45.10	CARE A3	-	-	-	-

CARE Ratings
Professional Risk Opinion

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