# Vibhor Steel Tubes Private Limited

March 13, 2020

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long term Bank Facilities | 54.57 | **CARE BBB-; Stable ISSUER NOT COOPERATING* (Triple B Minus; Outlook Stable ISSUER NOT COOPERATING*)** | **Issuer not cooperating; Revised from CARE BBB; Stable (Triple B: Outlook: Stable) on the basis of best available information** |
| Short term Bank Facilities | 94.60 | **CARE A3; ISSUER NOT COOPERATING* (A Three; ISSUER NOT COOPERATING*)** | **Issuer not cooperating; on the basis of best available information** |
| **Total** | **149.17 (Rupees One Hundred and Forty Nine crore and Seventeen lakh)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

CARE has been seeking information from Vibhor Steel Tubes Private Limited to monitor the rating vide e-mail communications/letters dated July 04, 2019, September 05, 2019, October 09, 2019, November 12, 2019, December 02, 2019, , January 13, 2020, February 13, 2020 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 ratings on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on Vibhor Steel Tubes Private Limited's bank facilities will now be denoted as **CARE BBB-; Stable/CARE A3; ISSUER NOT COOPERATING***

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

The ratings have been revised on account of deterioration in the profitability margins, capital structure and debt coverage indicators of the company during FY19 (Audited: refers to a period from April 1 to March 31).

Further, the revision in the rating also takes into account non-availability of information due to non-cooperation by Vibhor Steel Tubes Private Limited with CARE's efforts to undertake a review of the rating outstanding. CARE views information availability risk as a key factor in its assessment of credit risk.

The ratings further continues to take into account the experienced promoter's, long operational track record of the company along with its strong association with the principal Jindal Pipes Limited and the off take arrangement in place, providing revenue visibility over medium term.

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 and fortunes of the company with are linked to that of the principal.

**Detailed description of the key rating drivers**

*At the time of last rating on February 08, 2019 the following were the rating strengths and weaknesses (updated for the information available from Registrar of Companies)*

**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.

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

***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.

***Key Rating Weaknesses***

***Decline in profitability despite growth in scale of operations***

The TOI (Total Operating Income) of the company has seen a growth of ~37% to Rs. 606.42 crore inFY19 as compared with Rs. 450.13 crore in FY18. However, despite the growth, the scale of operations remains moderate with a tangible net-worth base of Rs. 54.74 crore as on March 31, 2019 (as compared to Rs. 48.34 crore as on March 31, 2018). The same limits the financial flexibility of the company. Further, despite the growth in scale of operations, the profitability declined with a 2.7% Y-o-Y decline in PBILDT to Rs.29.80 crore and 45% Y-o-Y decline in PAT to Rs.6.25 crore during FY19. The profit margins deteriorated as indicated by a 189 bps decline in the PBILDT margin which stood at 4.91% (P.Y: 6.80%) and 151 bps decline in the PAT margin which stood at 1.03% in FY19 (P.Y: 2.24%).

***Deterioration in the capital structure and debt coverage indicators***

The capital structure of the company deteriorated with an increase in debt levels. The overall gearing ratio stood stood at 2.44x as on March 31, 2019 (as compared to 1.98x as on March 31, 2018). The hiher debt levels coupled with lower profitability resulted in deterioration in the debt coverage indicators as indicated by a total debt to GCA and PBILDT interest coverage of 10.25x and 2.07x as at the end of FY19 (as compared to 6.09x and 2.60x respectively as at the end of FY18).

***Working capital intensive nature of operations***

The company has a collection period of 38 days and inventory period of 46 days, while the creditors of the company stood at 34 days thus resulting in the operating cycle of 51 days as on March 31, 2019. The company relies heavily on its working capital limits and channel financing facilities along with the creditors to bridge the working capital gap. The liquidity position is marked by a current ratio of 1.19x and cash and bank balance of Rs.7.01 crore as on March 31, 2019.

***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. Further the company is exposed to global risk of raw material price fluctuation leading to uncertainty 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.

**Analytical approach:** Standalone

**Applicable Criteria**

**Policy in respect of Non-cooperation by issuer**

**Criteria on assigning Outlook to Credit Ratings**

**CARE's Policy on Default Recognition**

**CARE's Methodology for Manufacturing Companies**

**Rating Methodology-Steel Companies**

**Financial ratios (Non-Financial Sector)**

**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) | FY18 (A) | FY19(A) |
|---|---|---|
| Total operating income | 450.13 | 606.42 |
| PBILDT | 30.65 | 29.81 |
| PAT | 11.41 | 6.25 |
| Overall gearing (times) | 1.98 | 2.44 |
| Interest coverage (times) | 2.61 | 2.08 |

*A: Audited*

**Status of non-cooperation with previous CRA:**

CRISIL vide its press release dated August 06, 2019 has placed the ratings in the non-cooperation category as the issuer continued to remain non-cooperative despite continuous requests by the agency.

**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 |
|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | - | - | March 31, 2027 | 16.57 | CARE BBB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Stable on the basis of best available information |
| Fund-based - LT-Cash Credit | - | - | - | 87.50 | CARE BBB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Stable on the basis of best available information |
| Non-fund-based - ST-BG/LC | - | - | - | 45.10 | CARE A3; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information |

**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-Term Loan | LT | 16.57 | CARE BBB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Stable on the basis of best available information | - | 1)CARE BBB; Stable (08-Feb-19) | - | - |
| 2. | Fund-based - LT-Cash Credit | LT | 87.50 | CARE BBB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Stable on the basis of best available information | - | 1)CARE BBB; Stable (08-Feb-19) | - | - |
| 3. | Non-fund-based - ST-BG/LC | ST | 45.10 | CARE A3; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information | - | 1)CARE A3 (08-Feb-19) | - | - |

***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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