Vibhor Steel Tubes Private Limited

September 04, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	12.45	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB-; Stable; ISSUER NOT COOPERATING* (Triple B Minus; Outlook: Stable; ISSUER NOT COOPERATING*) and removed from ISSUER NOT COOPERATING***
Short-term Bank Facilities	79.60	**CARE A3 (A Three)**	**Reaffirmed and removed from ISSUER NOT COOPERATING***
Long/Short term Bank Facilities	38.00	**CARE BBB; Stable/CARE A3 (Triple B; Outlook: Stable/A Three)**	**Revised from CARE BBB-; Stable ISSUER NOT COOPERATING* (Triple B Minus; Outlook: Stable/A Three; ISSUER NOT COOPERATING*) and removed from ISSUER NOT COOPERATING***
Total	**130.05 (One Hundred and Thirty crore and Five lakh only)**		

Details of instruments/facilities in Annexure-1

In the absence of minimum information required for the purpose of rating, CARE was unable to express an opinion on the ratings of Vibhor Steel Tubes Private Limited (VSTPL) and in line with the extant SEBI guidelines, CARE revised the rating of bank facilities of the company to 'CARE BBB-; Stable/CARE A3; ISSUER NOT COOPERATING'. However, the company has now submitted the requisite information to CARE. CARE has carried out a full review of the rating and the rating stands at 'CARE BBB; Stable/CARE A3'.*

Detailed Rationale and Key Rating Drivers

The revision in the ratings assigned to the bank facilities of VSTPL take into account the improved capital structure with accretion of profits to reserves and reduced channel finance limits during FY20 (Provisional; refers to a period from April 1 to March 31), adequate liquidity position characterized by a moderate cushion in accruals vis-à-vis repayment obligations and an improved cash flow from operations. Furthermore, the wide applications of its products has enabled a quick demand recovery from the nationwide lockdown during 4MFY21 (refers to a period from April 1 to July 31).

The ratings continue to derive strength from its long track record of operations of over a decade, along with the extensive experience of the promoters in the manufacturing of Electric Resistance Welded (ERW) pipes and its longstanding association with a fixed off-take arrangement with Jindal Pipes Limited (JPL) providing revenue visibility amidst the pandemic.

The aforementioned rating strengths are partially offset by the customer concentration risk with JPL contributing to more than 90% of the total operating income (TOI) and decline in profitability margins on account of the higher fixed capital expenses (interest and depreciation) during FY20 and competitive pricing offered to gain market share in the Hyderabad/Telangana market.

The ratings further continue to remain constrained by the moderate scale of operation, working capital intensive nature of operations with reliance of the company on various short term financing options, vulnerability of profitability to fluctuating raw material prices and presence of the company in a highly fragmented and competitive ERW pipe manufacturing business with low entry barriers, thereby operating at low profitability.

Rating Sensitivities

Positive Factor:

- Sustained improvement in PBILDT margins above 10% led by improving operating leverages and changes from increased capacity utilization
- Sustained improvement in the debt coverage indicators with PBILDT interest coverage above 5x and total debt to gross cash accruals lower than 2x

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

- Diversification in its revenue stream thereby reducing customer concentration risk

Negative Factor:

- Any un-envisaged debt funded capital expenditure or enhancement in limits leading to sustained deterioration in overall gearing beyond 2x
- Sustained deterioration in total debt to gross cash (TDGCA) accruals beyond 9x

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. Mr. Vijay Kaushik also is a director at Jindal Drilling and Industries Limited. The promoters are backed by an experienced team who currently head various divisions at VSTPL. The promoters have an established and longstanding relation with JPL. The same is expected to continue to derive benefits to the company.

Association with JPL backed by a fixed off-take arrangement

The company has a binding agreement (MoU) with the principal 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 Metric Tons (MTs) for a year. In case of a shortfall the VSTPL will be compensated at a rate of Rs.2000/MT. The selling price is decided on order basis based on the prevailing market price however; MoU also binds the principal 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 any such said compensation in case of a drop in off-take, amidst the pandemic will be 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 lakh.

Moderate capital structure and debt protection indicators

The total debt profile of the company consists of term loans, working capital borrowing and unsecured loans (USL), as against a tangible net-worth base of Rs.72.94 crore (including subordinated USL of Rs.11.59 crore) as on March 31, 2020. The scheduled debt repayments, accretion of profits to reserves and and reduced channel finance limits resulted in improvement in the overall gearing ratio over the past three years, which stood at 1.29x as on March 31, 2020 (as compared to 1.84x as on March 31, 2019). Furthermore, with lower debt levels, the total debt/GCA improved and stood at 7.25x and term debt to GCA stood at 2.00x as at the end of FY20 (as compared to 9.36x as at the end of FY19). However, with high interest cost and low profitability, the PBILDT interest coverage ratio was lower marginally and stood at 1.96x in FY20 (as compared to 2.07x in FY19).

Key Rating Weaknesses

Customer concentration risk

VSTPL derived approximately 90% of revenues from JPL during the last three years ending FY20. During FY20 JPL procured 111,238 MT i.e. a Y-o-Y growth of ~6% during the year (as compared to 104,957 MT in FY19). JPL has a network of dealers across India and sells pipes under the brand, "Jindal Star". Higher dependence on a single customer exposes the company to customer concentration risk, which is partly mitigated by minimum off-take clause. Other customers of the company include companies like Shagun Steels, Ramsteel Tubes Limited, De Wit Bouwmachines B.V and Maharashtra Seamless Limited. Furthermore, the company derives ~60% of revenue from the state of Maharashtra and 38% from Telangana. In addition to domestic sales the company also exports ~5% of the TOI.

Moderate scale of operations

The TOI of the company saw a Y-o-Y decline of 6.77% and stood at Rs.565.35 crore in FY20 (Provisional) as against Rs.606.41 crore in FY19 mainly due to the lower steel prices, which also affected the realisations. However, quantity sold has seen a 6.7% growth during FY20. Operating profitability has remained stable, as indicated by a PBILDT of Rs.31.33 crore in FY20 as compared to Rs.29.80 crore in FY19 and Rs.30.65 crore in FY18. However, PAT declined from Rs.11.41 crore in FY18 to Rs.6.25 crore in FY19 and to Rs.5.92 croe in FY20. The decline in PAT was mainly due to the added interest and depreciation cost with the completion of the debt funded capex for setting up the Telangana unit. GCA however has not seen a significant decline and stood at Rs.12.94 crore in FY20 as compared to Rs.13.03 crore in FY19. The scale of operations remains moderate, which restricts the company to reap the benefits of economies of scale.

Low capacity utilisation restricting operating leverages and resulting in low profitability margins

VSTPL operates two units at Sukheli, Maharashtra (installed capacity 125000 MT) and Mehboob Nagar, Telegana (installed capacity of 96000 MT). FY19 was the first full year of operation for the Mehboob Nagar, Telegana unit. The average capacity utilisation of the cumulative capacity remains low and stood at ~52% during FY19 and FY20, which restricts company to reap the benefits of operating leverages. The PBILDT margin marginally improved however was low at 5.54% in FY20 (as against 4.92% in FY19). The improvement was mainly on account of decline in raw material cost during the year. The total cost per ton manufactured declined by approx. 7.69% during FY20. PAT margin also deteriorated as compared to FY19, on account of the added interest and depreciation cost and stood at 1.05% during FY20 as compared to 1.03% in FY19.

The ability of the company to improve per ton profitability with optimal utilisation of its capacities will be a key rating monotorable.

Impact of Covid-19 on operations:

The company now has adequate demand, since pipes have wide applications in various industries including households, agriculture (irrigation), construction, etc. The operations at the plants were temporarily shut down due to the lockdown to curb the Covid outbreak. With the lockdown coinciding with March, which is the most critical time for dealers to meet the given targets to avail various benefits from the supplier, revenue and PBILDT lost was ~Rs.35 crore and Rs.1.75 crore respectively (~5%) in FY20. Further, April 20' was under complete lockdown and operations commenced since May 20' and sales/realizations/profitability have reached pre Covid levels in June 20'. As on August 01, 2020 the company has orders in hand to supply 9000 MT.

Susceptibility of profit margins 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 un-certainty of profitability in the course of business. However the principal 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.

Presence of the company in a fragmented and competitive industry:

The company operates in the ERW pipe manufacturing industry which is highly fragmented in nature with presence of a number of unorganized players. Being operating in the fragmented industry with low entry barriers restricts the bargaining power against suppliers and customers, resulting in lower profitability.

Liquidity: Adequate

Liquidity of VSTPL is characterized by a moderate cushion in accruals vis-à-vis repayment obligations. The company has sought moratorium for its term loan facilities from its lenders as part of the Covid-19 Regulatory Package announced by Reserve Bank of India (RBI). Accordingly, for such loans, scheduled payments that were due between March 20' –August 20' are deferred. *The documentation of the said moratorium in under formal approval process the ability of the company to make payments as per the revised schedule will be a key rating monotorable.*

It is expected that the company would be meeting its revised debt repayments, after considering moratorium, through its internal accruals. Gross cash accrual (GCA) is expected to be in the range of Rs.13 crore - Rs.16 crore as against the repayment obligations in FY21 to the tune of Rs.3.5 crore. Free cash balance stood at Rs.0.27 crores and margin money with banks (lien marked) were to the tune of Rs.7.15 crore as on March 31, 2020. As on July 31, 2020 the cash credit facility was in credit balance. However, the company has increased the utilisation of its non-fund based facilities. The bank has allowed inter-changeability between the fund and non-fund based facilities due to the Covid crisis. Cash flow from operations significantly improved and stood at Rs.45.67 crore in FY20 as against a negative Rs.11.93 crore in FY19. Improvement was mainly on account of reduced receivables and inventory levels.

Approach – Standalone

Applicable criteria:

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's Methodology for Manufacturing Companies
Financial ratios (Non-Financial Sector)
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments

Company Background

VSTPL (CIN: U27109HR2003PTC035091) 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 products find application in the construction, domestic, agriculture and the industrial sector. The company operates out of two manufacturing facilities the first one is based in Sukheli, Maharashtra with a production capacity of 125,000 MTPA and the second one is based out of Mehboob Nagar, Telangana with a production capacity of 96,000 MTPA. The company has also installed 2 MW solar rooftop solar power units (1MW each at both the units) for captive consumption.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	FY20 (UA)
Total operating income	450.13	606.42	565.35
PBILDT	30.65	29.81	31.34
PAT	11.41	6.25	5.92
Overall gearing (times)	1.98	1.84	1.29
Interest coverage (times)	2.61	2.08	1.96

A – Audited; UA – Un-audited

Status of non-cooperation with previous CRA:

ICRA vid its press release dated June 25, 2020 placed the ratings of VSTPL in the Issuer not co-operating category due to lack of adequate information from the entity so as to monitor its performance.

CRISIL vid its press release dated August 06, 2019 placed the ratings of VSTPL in the Issuer not co-operating category in the absence of any information on either the financial performance or strategic intent of VSTPL.

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	12.45	CARE BBB; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	38.00	CARE BBB; Stable/CARE A3
Non-fund-based - ST-BG/LC	-	-	-	45.10	CARE A3
Fund-based - ST-Vendor financing	-	-	-	34.50	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 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.	Fund-based - LT-Term Loan	LT	12.45	CARE BBB; Stable	-	1)CARE BBB-; Stable; ISSUER NOT COOPERATING* (16-Mar-20)	1)CARE BBB; Stable (08-Feb-19)	-
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	38.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB-; Stable; ISSUER NOT COOPERATING* (16-Mar-20)	1)CARE BBB; Stable (08-Feb-19)	-
3.	Non-fund-based - ST-BG/LC	ST	45.10	CARE A3	-	1)CARE A3; ISSUER NOT COOPERATING* (16-Mar-20)	1)CARE A3 (08-Feb-19)	-
4.	Fund-based - ST-	ST	34.50	CARE A3	-	-	-	-

	Vendor financing							

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I Margins on Fund based limits	Margin of 25% on all inventory and book debts (Cover period 90 days) EPC Margin – 10% and period 60 days
ii. Margins on Non Fund based limits	15% Margin on Bank Guarantee and Letter of Credit
Iii Unsecured loans from promotes/group entities	Unsecured loans outstanding as on March 31, 2019 not to be withdrawn during the currency of the bank loan (SBI) Interest on unsecured loans is not paid (SBI) To maintain quasi equity of Rs.11.59 crore till the currency of Aditya Birla Capital Loan
iv. Current ratio	Current ratio greater than or equal to 1x (standalone)
B. Non-financial covenants	
I Submission of Annual and Quarterly financial Statements	Company to endeavor to submitted latest audited balance sheet within 6 months of end of financial year Quarterly financial results within 8 weeks of end of quarter
ii Submission of stock and debtors statement *(SBI)*	Monthly stock statements and book debt to be submitted within 20th of every month

Annexure – 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-CC/Packing Credit	Simple
3.	Fund-based - ST-Vendor financing	Simple
4.	Non-fund-based - ST-BG/LC	Simple

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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