January 12, 2017

Vibhor Steel Tubes Private Limited

Instrument*	Rated Amount (in crore)	Rating Action*
Fund Based Limits: Cash Credit	28.00	[ICRA]BB+(Stable) Outstanding
Fund Based Limits: Term Loan	6.96 (enhanced from 2.00)	[ICRA]BB+(Stable) Assigned/Outstanding
Non Fund Based Limits: Letter of Credit	11.00^^	[ICRA]A4+ Assigned
Non Fund Based Limits: Bank Guarantee	11.00^^	[ICRA]A4+ Assigned
Fund Based Limits: Forward Contract Limit	(5.00)^ (enhancement)	[ICRA]BB+(Stable)/[ICRA]A4+Assigned
Fund Based Limits: EPC/PCFC//EBC/FBD/ODBC	(5.00)^ (enhancement)	[ICRA]BB+(Stable)/[ICRA]A4+Assigned
Fund Based Limits: Derivative / CEL	0.10 (enhancement)	[ICRA]BB+(Stable)/[ICRA]A4+Assigned
Unallocated	7.94	[ICRA]BB+(Stable)/[ICRA]A4+Assigned
Total	**65.00**	

*Instrument Details are provided in Annexure-1
^sublimit of cash credit facility
^^fully interchangeable

Rating Action
ICRA has assigned the short term rating of [ICRA]A4+ (pronounced ICRA A four plus) to the Rs.22.00 crore non fund based facilities and [ICRA]BB+ (pronounced ICRA double B plus) to Rs.6.96 crore (enhanced from Rs.2.00 crore) term loan facility of Vibhor Steel Tubes Private Limited (VSTPL). ICRA also assigned both long term rating of [ICRA]BB+ and short term rating of [ICRA]A4+ to the Rs. 10.00 crore fund based sub-limits of cash credit facility and Rs. 0.10 crore fund based limits of VSPL. The outlook on the long term is 'stable'.

ICRA also assigned both long term rating of [ICRA]BB+ and short term rating of [ICRA]A4+ to the Rs. 7.94 crore unallocated limits of VSPL. The outlook on the long term is 'stable'.

ICRA also has the long term rating of [ICRA]BB+ (pronounced ICRA double B plus) outstanding to the Rs. 28.00 crore cash credit facility of VSPL and. The outlook on the long term is 'stable'.

Rationale
The assigned rating takes into account the extensive experience of the VSTPL's promoters in the steel pipes manufacturing business, established relations with the reputed suppliers as well as the customers and healthy ramp up of operations since last three fiscals with significant growth in revenues & profitability margins in FY 2016 & H1 FY 2017. Various government subsidies for the new project to also improve the attractiveness of the new plant, which is upcoming in Telangana and is expected to commence production by FY 2017.

The assigned rating is however constrained by VSTPL's high client concentration with majority of sales over the years being derived from Jindal Pipes Limited, however, long association as well as reputed customer acts as comforting factors. ICRA also takes into consideration the vulnerability of VSTPL's profitability to volatility in prices of key raw materials due to cyclicality associated with steel industry and stiff competitive pressures in the pipe manufacturing industry. Working capital management remains an area of concern, with high inventory holding period, leading to almost full utilization of fund based limits. ICRA also notes that the company is in the midst of capex towards setting up of new manufacturing facility, the same is likely to strain the credit metrics in the near term.
Going forward, ICRA expects the operating income of the company to be supported by repeat orders from the established clientele and growth in export orders. The profitability though supported by various subsidies offered in the Telangana plant by the government, is expected to remain vulnerable to fluctuations in raw material prices and foreign exchange rates, and successful transmission of the same to its client, remains key

for its profitability. Commensurate returns from the debt funded capex, remains critical from credit perspective, given the capex, being relatively large compared to current balance sheet size.

Key rating drivers
Credit Strengths

- Extensive experience of the promoters in the manufacturing of steel pipes business
- Healthy ramp up of operations since inception; significant revenue growth along with improvement in profitability margins in FY 2016 & H1 FY 2017
- Various subsidies provided by Telangana government to ensure attractiveness of the new plant

Credit Weakness

- High client concentration risk with majority of sales over the years being derived from Jindal Pipes Limited; however, long association as well as reputed customer acts as comforting factors
- Planned capital expenditure towards new manufacturing facility in Telangana expected to stretch debt metrics indicators in near the term
- Highly competitive industry marked by the presence of numerous unorganized players and various established players.
- Vulnerability of profitability margins to volatility in prices of key raw materials due to cyclicality associated with steel industry
- Working capital management remains an area of concern, with almost full utilization of fund based limits driven primarily on account of inventory holding

Description of key rating drivers highlighted above:
VSTPL's promoters have the extensive experience in the steel pipes manufacturing business and have developed established relations with the reputed suppliers as well as the customers. The key product offered by the company are hollow Section, GI (galvanized iron) and ERW (Electric Resistance Welded) Black pipes, ranging from size 1/2" to 8" in diameter.

The largest customer of the company-Jindal Pipes Ltd. (JPL) accounts for more than 80% of the total sales in FY 2016. The company mainly caters to demand of Jindal Pipes Limited for Maharashtra state. While the long association of the VSTPL with Jindal Pipes Limited and strong market position of JPL in the pipes industry are some of the comforting factors; the high dependence on a single customer exposes the company's revenues to pressure in the event of any dip in off-take by Jindal Pipes Limited. In addition to JPL, VSTPL has other reputed customers and it has been making efforts to diversify its customer base. The company mainly procures raw material (HR coil and zinc) from reputed players like JSW Ispat Steel Limited & SAIL and has established relationship with them. Since the raw materials constitute a major portion of company's products, the company remains exposed to fluctuations in raw material prices.

The company has invested in erecting a new manufacturing facility in Balanagar Taluka, Telangana. The new facility will have four tube mills and will have the same capacity of 125,000 MT as the present manufacturing facility in Raigarh, Maharashtra. Telangana government has various subsidies for New Industries up to 5 years from date of commencing. These benefits will ensure better profitability for the company form the upcoming plant which is expected to commence commercial production by December end 2016. However, the planned capital expenditure towards new manufacturing facility in Telangana expected to stretch debt metrics indicators in near the term.

The company is engaged in highly competitive business with numerous players in his segment. However, this risk is moderated to some extent as VSTPL has well established relationship with its customers and it has been associated with some of its customers since long thereby leading to repeat orders.

The operating income of the company has grown at a healthy CAGR of ~22% in the three year period between FY2013 and FY2016. Further, the company has shown considerable increase in margins from FY 2015 to FY 2016, when operating margins improved from 3.98% to 7.68% and due to decline in raw material consumption cost. Further increase in exports which enjoy higher margins led to overall increase in profit metrics.

Analytical approach:
To arrive at the ratings ICRA has taken into account the standalone financials of the company along with key operational developments in the recent past. The company operates as a standalone entity and doesn't have any subsidiary in place.

Links to applicable Criteria
Corporate Credit Rating – A Note on Methodology
Rating Methodology for Manufacturing Companies
About the Company:
Vibhor Steel Tubes Private Limited (VSTPL) is engaged in manufacturing of hollow Section, GI (galvanized iron) and ERW (Electric Resistance Welded) Black pipes, ranging from size 1/2" to 8" in diameter. Its manufacturing facility is located at Raigarh in the state of Maharashtra, India**;** with a production capacity to 1,25,000 MT per annum. The company is currently promoted by Kaushik family.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month- year & Rating in FY2014
				January 2017	December 2016	-	-
1	Cash Credit	Long Term	28.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-
2	Term Loans	Long Term	6.96	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-
3	Letter of credit	Short Term	11.00	[ICRA]A4+	-	-	-
4	Bank Guarantee	Short Term	11.00	[ICRA]A4+	-	-	-
5	Forward Contract Limit	Long Term	(5.00)	[ICRA]BB+ (Stable)/[ICRA]A4+	-	-	-
6	EPC/PCFC//EBC/FBD/ODBC	Long Term	(5.00)	[ICRA]BB+ (Stable)/ [ICRA]A4+	-	-	-
7	Derivative / CEL	Long Term	0.10	[ICRA]BB+ (Stable)/ [ICRA]A4+	-	-	-
8	Unallocated	Long Term / Short Term	7.94	[ICRA]BB+ (Stable) /[ICRA]A4+	-	-	-
	Total		65.00				

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	28.00	[ICRA]BB+ (Stable)
Term Loan	-	-	-	6.96	[ICRA]BB+ (Stable)
Letter of credit	-	-	-	11.00	[ICRA]A4+
Bank Guarantee	-	-	-	11.00	[ICRA]A4+
Forward Contract Limit	-	-	-	(5.00)	[ICRA]BB+(Stable) / [ICRA]A4+
EPC/PCFC//EBC/FBD/ODBC	-	-	-	(5.00)	[ICRA]BB+(Stable) / [ICRA]A4+
Derivative / CEL	-	-	-	0.10	[ICRA]BB+(Stable) / [ICRA]A4+
Unallocated	-	-	-	7.94	[ICRA]BB+(Stable) / [ICRA]A4+

Source: Vibhor Steel Tubes Private Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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