November 15, 2017

Vibhor Steel Tubes Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	28.00	[ICRA]BBB- (Stable); Upgraded from [ICRA]BB+ (Stable)
Fund-based – Term loan	6.96	[ICRA]BBB- (Stable); Upgraded from [ICRA]BB+ (Stable)
Non-fund based – Letter of Credit	11.00^	[ICRA]A3; Upgraded from [ICRA]A4+
Non-fund based – Bank Guarantee	11.00^	[ICRA]A3; Upgraded from [ICRA]A4+
Fund-based – Forward Contract Limit	(5.00)^^	[ICRA]BBB- (Stable) / [ICRA]A3; Upgraded from [ICRA]BB+ (Stable) / [ICRA]A4+
Fund-based – EPC/PCFC//EBC/FBD/ODBC	(5.00)^^	[ICRA]BBB- (Stable) / [ICRA]A3; Upgraded from [ICRA]BB+ (Stable) / [ICRA]A4+
Fund-based – Derivative / CEL	0.10	[ICRA]BBB- (Stable) / [ICRA]A3; Upgraded from [ICRA]BB+ (Stable) / [ICRA]A4+
Unallocated	7.94	[ICRA]BBB- (Stable) / [ICRA]A3; Upgraded from [ICRA]BB+ (Stable) / [ICRA]A4+
Total	**65.00**	

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

Rating action

ICRA has upgraded the long-term rating to [ICRA]BBB- (pronounced ICRA triple B minus) from [ICRA]BB+ (pronounced ICRA double B plus) to the Rs. 28.00 crore[1] cash credit facility and Rs. 6.96 crore term loan facility of Vibhor Steel Tubes Private Limited (VSTPL or the company)[2]. ICRA has also upgraded the short-term rating to [ICRA]A3 (pronounced ICRA A three) from [ICRA]A4+ (pronounced ICRA A four plus) to the Rs. 11.00 crore letter of credit facility and Rs. 11.00 crore bank guarantee facility of the company. The long- term / short term ratings for the Rs. 5.00 crore forward contract limit, Rs. 5.00 crore EPC/PCFC//EBC/FBD/ODBC limit, Rs. 0.10 crore derivative / CEL limit and Rs. 7.94 crore unallocated limit have also been upgraded to [ICRA]BBB- / [ICRA]A3 from [ICRA]BB+ / [ICRA]A4. The outlook on the long-term rating is Stable.

[1] *100 lakh = 1 crore = 10 million*
[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Rationale

The ratings up-gradation takes into account healthy ramp up of production capacity with commencement of commercial production in the new manufacturing facility in Hyderabad, Telangana, sustenance of margins at healthy levels, with rise in capacity utilisation levels since FY 2016 and take or pay agreement with its key customer, Jindal Pipes Limited (rated IrA+(Stable)/A1+ by ICRA) for 100,000 MT (metric tonne) of steel pipes per annum for the next six years till FY2023. The ratings continue to take into account the extensive experience of the promoters of more than a decade in steel pipe manufacturing industry and the strong association with Jindal Pipes Limited regarding sale under its brand name Jindal Star which enjoys strong market recognition.

The ratings however, remain constrained by the vulnerability of VSTPL's profitability to volatility in prices of key raw materials (primarily steel) and working capital intensive nature of business due high inventory holding period. High working capital intensity has led to increased in borrowing level, thereby high gearing levels in FY2017. ICRA notes that, with commencement of new facility, the company in the near to medium term should see ramp up in sales, which is expected to aid its accruals and thus gradually decrease in debt levels.

Going forward, the company's ability to scale up its revenue base supported by rise in capacity utilisation level and protect margins through passing of raw material price rise will be key sensitivities from credit perspective. Moderation in gearing levels, with reduction in debt, through better working capital management and retention of accruals in the company, will be critical from the perspective of improvement in gearing as well as other debt metrics.

Key rating drivers

Credit strengths

- **Robust growth in the revenue and profitability in the past two years –** The revenue of the company has been continually growing in the past four years at a CAGR of 16% from Rs. 160.39 crore in FY2014 to Rs. 306.10 crore in FY2017 supported by increased capacity utilisation from 40% to 60% during the same period. Increased production along with increased exports which garner higher profitability led to improved operating profitability from 3.57% in FY2014 to 7.68% in FY2016 and 8.48% in FY2017.

- **Strong association and off-take agreement with Jindal Pipes Limited -** VSTPL has entered into an off-take agreement with Jindal Pipes Limited in April 2017 for six years (till March 2023), wherein the latter has agreed to off-take a minimum quantity of 100,000 MT per annum of finished steel pipes from VSTPL. The agreement provides strong revenue visibility in near to medium term. In addition to the agreement, entire sales of the company are order backed and under 'Jindal Star' brand name which enjoys strong market recognition.

- **Extensive experience of promoters in the steel tubes manufacturing industry –** VSTPL was promoted by Mr. Vibhor Kaushik and Mr. Vijay Kaushik in 2003 for manufacturing of steel tubes. The extensive experience of the promoters has enabled the company to receive repeat orders from the establish customer – Jindal Pipes Limited and increase its capacity to 221,000 MT per annum with the newly set up manufacturing unit in Hyderabad, Telangana in July 2017 with an installed capacity of 96,000 MT per annum in addition to the existing unit in Raigarh, Maharashtra with an installed capacity of 125,000 MT per annum.

Credit weaknesses

- Woking capital intensive nature of business - Working capital management of the company remains an area of concern, with high inventory holding period of ~80 days as on August 31, 2017, leading to near to full utilisation fund based limits. The company, however is in process of getting its limit enhanced, which is expected to support its growth in the near to medium term.
- High gearing levels: The gearing level for the company continues to remain at elevated level at 1.88 times as of March 31, 2017 on account of high working capital borrowing levels, as well as recently concluded capex.
- Highly competitive industry due to commoditised nature of steel pipes - The company faces intense competition from a large number of players in a highly commoditised market, especially in the black pipes segment, resulting in significant pricing pressure. The round pipe segment faces stiff competition from HDPE/PVC[3] pipes; however, superior quality of its products along with the brand of Jindal Star, helps the company to reduce competition.
- Vulnerability of profits and cash flows to volatility in prices of key raw materials - Hot rolled coil (HRC) is the primary raw material used for the production of black pipes. Zinc is required in small quantities for the galvanisation process to convert MS (mild steel) black pipes into GI (galvanized iron) pipes. The raw material cost accounted for around 80-85% of the company's net sale over the last few years, reflecting a highly raw-material intensive nature of operations and limited value addition. The company remains exposed to the volatility in the prices of key raw materials like HRC and zinc.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:
Corporate Credit Rating Methodology
Rating Methodology for Entities in the Ferrous Metals Industry

About the company:
VSTPL was promoted by Mr. Vibhor Kaushik and Mr. Vijay Kaushik in 2003. The company is engaged in manufacturing of hollow section, GI and ERW (Electric Resistance Welded) black pipes, ranging from size 1/2" to 8" in diameter. It has two manufacturing facilities, one located at Raigarh, Maharashtra; with a production capacity of 1,25,000 MT per annum and the second located in Hyderabad, Telangana; with a production capacity of 96,000 MT per annum.

In FY2017, the company reported a net profit of Rs. 9.88 crore on an operating income of Rs. 306.10 crore, as compared to a net profit of Rs. 8.74 crore on an operating income of Rs. 292.57 crore in the previous year.

[3] *High-density polyethylene / polymerization of vinyl chloride*

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	292.57	306.10
PAT (Rs. crore)	8.74	9.88
OPBDIT/ OI (%)	7.68%	8.48%
RoCE (%)	30.50%	29.63%
Total Debt/ TNW (times)	1.83	1.75
Total Debt/ OPBDIT (times)	2.09	2.47
Interest Coverage (times)	3.54	3.34
NWC/ OI (%)	14%	17%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				November 2017	January 2017		
1	Cash Credit	Long Term	28.00	[ICRA]BBB - (Stable)	[ICRA]BB + (Stable)	-	-
2	Term Debt	Long Term	6.96	[ICRA]BBB - (Stable)	[ICRA]BB + (Stable)	-	-
3	Letter of Credit*	Short Term	11.00	[ICRA]A3	[ICRA]A4 +	-	-
4	Bank Guarantee*	Short Term	11.00	[ICRA]A3	[ICRA]A4 +	-	-
5	Forward Contract Limit**	Long Term / Short Term	(5.00)	[ICRA]BBB - (Stable) / [ICRA]A3	[ICRA]BB + (Stable) / [ICRA]A4	-	-
6	EPC/PCFC//EBC/FBD/ODBC**	Long Term / Short Term	(5.00)	[ICRA]BBB - (Stable) / [ICRA]A3	[ICRA]BB + (Stable) / [ICRA]A4	-	-
7	Derivative / CEL	Long Term / Short Term	0.10	[ICRA]BBB - (Stable) / [ICRA]A3	[ICRA]BB + (Stable) / [ICRA]A4	-	-
8	Unallocated	Long Term / Short Term	7.94	[ICRA]BBB - (Stable) / [ICRA]A3	[ICRA]BB + (Stable) / [ICRA]A4	-	-

*fully interchangeable
**sublimit of cash credit facility

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

<u>Instrument Details</u>

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Cash Credit	-	-	-	28.00	[ICRA]BBB- (Stable)
	Term Debt	FY2014	-	FY2020	6.96	[ICRA]BBB- (Stable)
	Letter of Credit*	-	-	-	11.00	[ICRA]A3
	Bank Guarantee*	-	-	-	11.00	[ICRA]A3
	Forward Contract Limit**	-	-	-	(5.00)	[ICRA]BBB- (Stable) / [ICRA]A3
	EPC/PCFC//EBC /FBD/ODBC**	-	-	-	(5.00)	[ICRA]BBB- (Stable) / [ICRA]A3
	Derivative / CEL	-	-	-	0.10	[ICRA]BBB- (Stable) / [ICRA]A3
	Unallocated	-	-	-	7.94	[ICRA]BBB- (Stable) / [ICRA]A3

*fully interchangeable
**sublimit of cash credit facility
Source: Vibhor Steel Tubes Private Limited

Contact Details

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Srinivas Menon
+91 22 6169 3354
srinivas.menon@icraindia.com

Yamini Kothari
+91 22 6169 3355
yamini.kothari@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata
Mr. Jayanta Roy
Mobile: **+91 9903394664**
Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar,Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500