Press Release

Hansa Tubes Private Limited

February 20, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities	43.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
2.	Long Term /Short Term Bank Facilities	5.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)/ IVR A3 (IVR A Three)	Assigned
	Total	**48.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Hansa Tubes Private Limited ("HTPL" or "the company") derives comfort from its experienced promoters with established presence in steel industry, long standing relationship with its suppliers and customers leading to relatively low counter party payment risk. The ratings also factor in its continuous scale up of operations, moderate coverage indicators and adequate liquidity. These rating strengths are partially offset by volatile raw material prices, intense competition from organized and unorganized players, customer concentration risk and sluggish demand growth in the end-user industries and exposure to cyclicality in the steel industry.

Key Rating Sensitivities

Upward Factors

- Substantial and sustained growth in operating income, operating margin and cash accrual and improvement in working capital management.
- An improvement in overall credit metrics marked by improvement in liquidity position

Downward Factors

- Low operating income and cash accrual, a stretch in the working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure weakens the financial risk profile, particularly liquidity.
- Significant deterioration in debt metrics

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Experienced promoters with established presence in steel industry**

Hansa Tubes Private Limited was incorporated in 1994. The company manufactures Cold rolled (CR) steel products and Electric Resistance Welded (ERW) precision pipes and has more than two decades of presence in the steel industry. At present, the company is being managed by four directors, Mr. Arun Gupta, Ms. Meenakshi Gupta, Mr. Atul Gupta and Mr. Arjit Gupta where Mr. Arun Gupta and Ms. Meenakshi Gupta are carrying an overall experience of above two decades and other two directors – Mr. Atul Gupta and Mr. Arjit Gupta have an experience of about 16 years and 4 years, respectively, in the sector. The top management comprises qualified and experienced members, who support the overall performance. Promoters' extensive industry experience is expected to continue to support the business risk profile by facilitating timely procurement of raw materials.

- **Established relationship with its suppliers and clientele**

The company is involved into manufacturing of Cold rolled (CR) steel products and Electric Resistance Welded (ERW) precision pipes. These products have large applications in manufacturing automobiles, cycle, white goods, and consumer durables. Presence in the high-value products segment in steel industry for more than two decade has led to development of long term relationships with the suppliers which resulted into easy procurement of raw materials. Also, it enables, the company to establish relationships with its customers (especially in the bicycle and auto component manufacturing industry), which in turn leads to repeat orders. For fiscal 2019, the top six customers accounted for ~43% of its revenue, while company's top customer contributed ~10% of the total revenue, which exposes the revenues of the company to a moderate customer concentration risk. However, the established relationship of the company with its clientele leads to regular procurement of orders from these customers, which mitigates the risk associated to some extent.

- **Sustained growth in revenues over the years**

The total operating income of the company has increased at a CAGR of ~23% over the last three fiscal, with a steady y-o-y growth of about ~31% in FY19 as compared to FY18. The healthy growth was driven by increase in sales volume sold on the back of increased orders supported by an enhancement in the installed capacity from 45000MT to 55000MT during FY19. However, in view of subdued economic scenarios, Infomerics expects moderation in scale of operations of the company in FY20. The PAT margin of the company also remained thin during the aforesaid period and stood at 0.96% in FY19. However, despite its thin profit margin the company has witnessed elevation in its absolute profit levels and gross cash accruals. Further, till December' 2019, the company has achieved a turnover of ~Rs.109 crore.

Key Rating Weaknesses

- **Lack of backward integration vis-à-vis volatility in prices**

Raw material consumption is the single largest cost component for HTPL. The company does not have any backward integration for its basic raw materials and has to purchase the same from open market. Since, the raw material is the major cost driver (constituting ~ 88% (PY: ~84%) of total cost of sales in FY19) and with raw material prices being volatile in nature, the profit margins of the company remain susceptible to fluctuation in raw material prices.

- **Intense competition and concentration in revenue**

The steel products manufacturing businesses is characterised by intense competition across the value chain due to low product differentiation, and consequent intense competition, which limits the pricing flexibility of the players, including HTPL. Intense competition, in a highly fragmented industry, however, is expected to keep scale of operations moderate over the medium term. Further, entire revenues is derived from sale of cold rolled (CR) coils, strips and sheets, and electric resistance welding (ERW) precision tubes, in Punjab and Haryana, leading to a concentrated revenue profile, both in terms of product portfolio and geographical presence.

- **Working capital intensive nature of operations**

The operating cycle though improved from 140 days in FY18 continues to remain elongated at 122 days, driven by moderate receivables of about 75 days and inventory holding period of about 56 days as against its payable days of about 9 days in FY19. The high working capital requirements were met largely through bank borrowings, which has resulted average utilization of working capital facilities at ~85% of its sanctioned working capital limits for last 12 months period ended November-2019. Infomerics believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

- **Leveraged capital structure with moderate debt protection metrics**

The capital structure of the company remained leveraged marked by overall gearing at 2.01x as on March 31, 2019. The overall gearing increased from 1.88x as on March 31, 2018 on account of addition of term loan taken in FY19 and higher utilization of working capital borrowings to support the enhanced scale of operations. However, the coverage indicators are moderate with Interest Coverage Ratio (ISCR) of 1.67 times for FY2019 as against 1.82 times in FY2018. However, total indebtedness of the company as reflected by TOL/TNW remained satisfactory at 2.1x as on March 31, 2019. The ability of the company to generate healthy cash accruals to improve its financial risk profile will remain a key rating monitorable.

- **Sluggish demand growth in the end-user industries and exposure to cyclicality in the steel industry**

The company majorly caters to sectors such as bicycle and auto component manufacturing industry which are currently going through a sluggish demand growth. Slowdown on these industries is expected to affect the performance of the company in FY20. The growth is steel industry is strongly linked to domestic and global economic trends and the industry is susceptible to economic downturns and hence, is cyclical in nature.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The company has earned a gross cash accruals (GCA) of Rs.3.23 crore in FY19. The liquidity position is expected to remain adequate characterized by its adequate expected cash accruals vis-à-vis minimal repayment obligations of Rs.1.99 crore in FY20. Moreover, the company has no debt availment plan in the near term which imparts further comfort. However, the liquidity position is constrained due to its working capital intensive nature of operations marked by its elongate operating cycle. Further, the company has limited gearing headroom on account of its leveraged capital structure.

About the Company

Hansa Tubes Private Limited (HTPL) was incorporated in 1994 and headquartered in Chandigarh, India. The company is engaged in the manufacturing of Cold rolled (CR) steel products i.e. coils, strips and sheets with an aggregate installed capacity of 55,000 MT per annum (MTPA), as on March 31, 2019. The company is also engaged in the manufacturing of Electric Resistance Welded (ERW) precision pipes with an installed capacity of 15,000 MT per annum. The manufacturing facility of the company is situated at Derabassi, Punjab.

In addition to its steel business, the company has developed a plotted Industrial Park on Derabassi-Barwala state highway.

Financials (Standalone):

(Rs. In Crore)

For the year ended*	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	147.23	192.86

For the year ended*	31-03-2018	31-03-2019
EBITDA	7.92	9.38
PAT	1.46	1.85
Total Debt	47.98	55.05
Tangible Net worth	25.56	27.41
EBITDA Margin (%)	5.38	4.86
PAT Margin (%)	0.99	0.96
Overall Gearing Ratio (x)	1.88	2.01

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Bank Facilities-Fund Based	Long Term	43.00	IVR BBB-/Stable Outlook	-	-	-
2.	Bank Facilities-Fund Based/Non-Fund Based	Long Term /Short Term	5.00	IVR BBB-/Stable Outlook/ IVR A3	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term - Fund Based Facilities: Cash Credit	-	-	-	41.00	IVR BBB- /Stable Outlook
Long Term - Fund Based Facilities: Overdraft	-	-	-	5.00	IVR BBB- /Stable Outlook
Long Term - Fund Based Facilities: Working Capital Term Loan	-	-	Sep-2023	2.00	IVR BBB- /Stable Outlook
Short Term – Non-Fund Based Facilities: Letter of Credit*	-	-	-	5.00	IVR A3

**Sub-limit of Cash Credit.*