Press Release

Srikalahasthi Pipes Ltd.

October 3, 2017

Ratings

Instrument / Facility	Amount	Rating	Rating Action
Outstanding Long-Term Borrowings (LTB)	Rs.84.9 crore	IVR A+ with Stable Outlook (IVR Single A plus with Stable Outlook)	Downgraded
Proposed LTB Programme/Non-Convertible Debentures	Rs.115.1 crore (increased from Rs.67.94 crores)	IVR A+ with Stable Outlook (IVR Single A plus with Stable Outlook)	Assigned/Downgraded

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in ratings takes into account stiff fall in EBIDTA (Earning Before Interest, Depreciation, Taxes & Amortisations) margin due to volatile trend in input prices and net sales price realisation not keeping in trend with the input prices and the liquidity stress for the group as a whole due to deteriorating financial condition of Electrosteel Steels Ltd. (ESL), one of the major group companies, consequent upon which the lending banks could not implement the debt resolution programme & referring the matter to National Company Law Tribunal (NCLT). The revision in ratings also takes cognisance of CBI having filed a FIR against the current promoters of the company, among others, and the subsequent search in respect of clearance received from Govt. of India for use of forest land for iron ore mining in Singbhum District of Jharkhand. The ratings however, continue to draw strength from the long & strong presence of Srikalahasthi Pipes Ltd. (SPL) in the Ductile Iron (DI) pipe segment, strong backward integration leading to operational efficiency, satisfactory leverage position & debt-servicing parameters, modest overall profitability level and buoyant outlook for the domestic DI pipe market. Trend in profitability in the midst of volatile input prices & increasing competition and the developments in the matters pertaining to promoters & group companies are the key rating sensitivities.

List of Key Rating Drivers

- Stiff fall in EBIDTA (Earning Before Interest, Depreciation, Taxes & Amortisations) margin due to volatile trend in input prices and net sales price realisation not keeping in trend with the input prices
- Liquidity stress for the group as a whole due to deteriorating financial condition of ESL., one of the major group companies.
- Filing of a FIR by CBI against the current promoters of the company in respect of receipt of clearance from Govt. of India for use of forest land for iron ore mining.
- Long & strong presence in the DI pipe market.
- Strong backward integration leading to operational efficiency.
- Satisfactory leverage position & debt-servicing parameters.
- Modest overall profitability level.
- Buoyant outlook for the domestic DI pipe market

Detailed Description of Key Rating Drivers

Stiff fall in EBIDTA margin

The EBIDTA margin for the company fell from 23.3% in FY16 to 20.1% in FY17 and further to 14.85% in Q1FY18. This is mainly due to volatile trend in input prices and net sales price realisation not keeping in trend with the input prices. The prices of coking coal and iron ore, the two key inputs used in manufacturing DI pipes, have witnessed high volatility in the last few quarters, which had a consequential bearing on EBIDTA margin. Infomerics believes that this situation is likely to continue for some more time. The net sales realisation has also reduced from FY2016 to FY2017 and has not kept pace with the input prices which may be due to competitive pressures.

Liquidity stress for the group as a whole due to deteriorating financial condition of ESL. ,one of the major group companies.

One of the major group companies, ESL, has been in a bad shape for the last few years and has been incurring net loss. Even in FY17, the company reported a net loss of Rs.1,463.48

and the networth became negative as on March 31, 2017. The lending banks' efforts to finalise a debt resolution plan has failed to yield any positive result, compelling banks to refer the matter to NCLT.

Filing of a FIR by CBI against the current promoters of the company in respect of receipt of clearance from Govt. of India for use of forest land for iron ore mining.

Recently, the CBI has filed a FIR against the promoters of SPL in connection with the promoter company's receipt of clearance from Govt. of India for use of forest land for iron ore mining. Subsequent to the FIR, the CBI has made search at various locations of the promoters. As of now, the consequent of this development is still to be unearthed.

Long & strong presence in the DI pipe market

SPL is mainly engaged in production & sale of DI pipes and cement at its plants in Rachagunneri, Andhra Pradesh. DI pipe is the major product of the company, which contributed over 80% of Net Sales in past two years. SPL is one of the major players in the DI pipe segment in the country with 15-17% market share. SPL and Electrosteel Casting Ltd. together enjoy over 40% market share in the country. Moreover, SPL has a market dominance in DI pipes in the southern part of the country, with around 75% of market share there. 90% of the company's capacity is utilised to cater to the southern part; however, this poses the geographic concentration risk to the company.

Strong backward integration leading to operational efficiency

SPL also manufactures pig iron, low ash metallurgical coke and slag cement. All these are mostly used for captive purposes to produce DI pipes. In addition, the company also has 14.5 MW captive power plant. This integrated nature of operations benefits the company in terms of overall performance efficiency. Further, close proximity of the plant to the end users benefits the company in terms of savings in transportation cost.

Satisfactory leverage position & debt-servicing parameters

Leverage position of SPL remained at the comfortable level with long-term debt to equity ratio at 0.13x as on March 31, 2017 improved from 0.24x as on March 31, 2016. Overall gearing ratio also improved during the aforesaid period. Moreover, long-term debt/GCA and long-term debt /EBITDA too improved and have generally been comfortable. Interest coverage ratio at greater than 6x was also comfortable.

Modest overall profitability level

Overall profit parameters of SPL, though lower in FY17, were modest with PAT level and PAT margin at Rs.141.8 crores and 11.74% respectively in FY17.

Buoyant outlook for the domestic DI pipe market

With an expected pick up in infrastructure activities and various measures undertaken by the government, there is a potential demand for DI pipes. The Governments initiatives such as AMRUT (Atal Mission for Rejuvenation and Urban Transformation Yojna), housing for all by 2022, 100 smart city projects, etc. are expected to auger well for the DI pipe market in future.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Company

Srikalahasthi Pipes Ltd. (SPL), erstwhile Lanco Industries Limited (LIL), incorporated in 1991, is one of the largest producers of DI pipes in India (15-17% market share). LIL was initially promoted by Hyderabad-based Lanco group, which was acquired by Kolkata-based Electrosteel group from 2002 gradually. LIL started commercial production in 1994. DI pipe is the core product of SPL, which contributed over 80% of its sales in the past two years. At present, the aggregate DI pipe manufacturing capacity of SPL is 300000 tonnes per annum. Besides DI pipes, the company also manufactures Pig Iron, Portland Slag Cement and Coke, most of which is used for captive purposes. Electrosteel Castings Ltd. (ECL), is the flagship company of the Electrosteel group. ECL is the largest producer of DI pipes in India.

Financials (Standalone)

(Rs. Crores)

For the year ended / As On	31-03-2016	31-03-2017
(As per IND AS)	**Audited**	**Audited**
Total Operating Income	1145.6	1177.9
EBITDA	266.8	236.9
Interest	42.5	39.3
PAT	155.6	141.8
Total Debt	457.1	489.8
Long Term Debt	164.6	102.6
Tangible Net worth	696.6	812.6
Ratios:		
Profitability (%)		
a. EBIDTA Margin	23.28	20.12
b. PAT Margin	13.35	11.74
Long-Term Solvency Ratios		
a. Long-Term Debt Equity ratio	0.24	0.13
b. Overall Gearing ratio	0.66	0.60

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Long-term Borrowing (LTB) programme	Long Term	84.9 (present outstanding)	IVR A+/ Stable (IVR Single A plus with	IVR AA/Stable (Sept. 09, 2016) for Rs.132.06	--	--

				stable outlook)	crores		
2.	Proposed LTB / Non-Convertible Debentures (NCD)	Long Term	115.1	IVR A+/ Stable (IVR Single A plus with stable outlook)	IVR AA/Stable (Sept. 09, 2016) for Rs.67.94 crores	--	--

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
Outstanding Long-Term Borrowings(LTB)	Present outstanding	Varied	Varying maturities till September 15, 2020	84.9	IVR A+/ Stable (Single A plus with stable outlook)
Proposed LTB / Non-Convertible Debentures	--	--	--	115.1 (increased from 67.94)	IVR A+/ Stable (Single A plus with stable outlook)