



Infomerics Valuation And Rating Pvt. Ltd

Press Release

Swastik Pipe Limited

August 9, 2018

Rating

Sr. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Long Term Fund Based Limits	118.00	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)
2.	Short Term Non-Fund Based Facilities	70.00	IVR A3+ (IVR A Three Plus)
3.	Long Term Debt - Term Loan	12.00 (including proposed term loan of Rs.8.50 crore)	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)
	Total	200.00	

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid ratings derive comfort from its experienced promoters, diverse product portfolio, diversified geographical presence and established relationships with clients and suppliers. The ratings are however constrained by moderate gearing levels and debt coverage indicators, moderate profitability margins, working capital intensive operations and raw material price risk and cyclicalities associated with the steel industry

Gearing level, scale of operations and profitability and working capital management are the key rating sensitivities.

List of Key Rating Drivers

- Experienced promoters
- Diverse product portfolio
- Diversified geographical presence
- Established relationships with clients and suppliers
- Moderate gearing levels and debt coverage indicators
- Moderate profitability margins
- Working capital intensive operations



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- Raw material price risk and cyclicity associated with the steel industry

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced promoters

The company was incorporated in 1973 by Mr. Devki Nandan Bansal. He is a graduate and has a vast experience of over 50 years in this industry. His son, Mr. Sandeep Bansal is the Managing Director of the company. He is a post graduate in Business Management and has over 20 years of experience in the same industry. Other members of the board are also well-qualified and highly experienced.

Diversified product portfolio

The company has a diversified product portfolio (galvanized pipe, black pipe, API pipe, stainless steel tubes, CR coils, tubular poles and mounting structures) that caters to the requirement of a large number of industrial and infrastructural usages mainly Irrigation and Sewage, Water Supply and Plumbing, Oil and Gas, Automobiles, Building Structure and Fabrication, Railways & Refinery, Solar Panels, Electrical Poles, High Voltage Transmission Towers and in several industrial plants. The company is one of the few suppliers approved for supplying pipes used in fire sprinklers in UAE. In July 2018, Power Grid Corporation has also approved SPL as a vendor to supply power transmission structures to Tata Projects Ltd.

Diversified geographical presence

The company sells all its products under its registered brand “T.T. Swastik”, across the country and has regional managers in 11 states. Out of the total sales, the company has 55% of its sales are in North India, 20% in West India, 15% in South India and the remaining 10% is exported primarily to UAE, Middle East and Canada. Currently, the company has network of approximately 180 dealers spread across multiple cities within India.

Established relationships with clients and suppliers

The company has established relationship with its clients. The top 10 clients contribute to around 12% of the total sales indicating a well-diversified client base. The major raw material for the company is hot rolled (HR) coil and zinc. HR coil constitutes about 80% of the total raw



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material requirement. HR coil is primarily purchased from SAIL and Tata Steel and zinc is purchased from Hindustan Zinc Ltd. The company has long term business relation and established supply arrangements with its vendors for procuring the same.

Key Weaknesses

Moderate gearing levels and debt coverage indicators though improving

The overall gearing of the company has improved from 1.54x as on March 31, 2017 to 1.30x as on March 31, 2018 (provisional), on account of retention of profits coupled with repayment of debt in FY18, however it continues to be moderate. Total debt to GCA has improved from 16.31x in FY17 to 13.42x in FY18, however it continues to be moderate. The Long term debt to EBITDA was comfortable at 0.35x in FY 18. The interest coverage ratio stood at 1.46x in FY18. The company also has high amount of contingent liabilities pertaining to Local Area Development Tax amounting to Rs.19.41 crore. However, the dispute has been pending in the court of Law for a very long time (~18 years) and at present, the case has been directed for further proceedings to a three Judges Bench of the Supreme Court.

Moderate profitability margins

The company has recorded modest growth in revenues by 5.93% to Rs.667.92 crore in FY18 primarily due to increase in revenue from structural segment which increased from 17.24% of the total revenue in FY17 to 26.50% in FY18. The profitability margins of the company are moderate. The EBITDA margin of the company is in the range of 4%-5% and the PAT margin is in the range of 0.5%-0.8%.

Working capital intensive operations

Operations of the company are working capital intensive. The inventory holding days are around 60 days and the debtor collection period is in the range of 50-55 days; however these are been partially supported by creditors with credit period of around 50 days. .

The month end cash credit utilization of the company was high at around 97.92% during the past 12 months ended June 2018. However, the company has unutilised sanction of working capital limit of Rs.30 crore which provides some comfort in Feb 2018. But, the company has not availed the same as on present date, which the company plans to avail post increase in the scale of operations of the company.



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Raw material price risk and cyclical risk associated with the steel industry

The primary raw material for the company is HR coil. Historically, the prices of HR coil have been volatile in nature. Also, the steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market.

Analytical Approach & Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

About the Company

Swastik Pipe Ltd (SPL), incorporated in 1973, is an established pipe manufacturing company in India. The company manufactures wide varieties of Mild Steel/Carbon Steel ERW Black and Galvanized Pipes/ Tubes, which have a diversified industrial use such as for irrigation & sewage, water supply & plumbing, oil & gas and automobiles. The company sells all its products under its registered brand “T.T. Swastik”. The company has many accreditations for its products. The company has its corporate office in New Delhi and manufacturing facilities at Jhajjar (Haryana) and Mathura (Uttar Pradesh). Both the facilities are ISO 9001: 2000 certified and APIQ1 (quality management system) approved. The combined annual installed production capacity of both the manufacturing facilities together is 2,40,000 MT.

The wide range of products manufactured by the company include black steel pipes, galvanized steel pipes, galvanized CR strips, stainless steel tubes and pipes, mounting structures (solar structures) and GI & MS wires. All the products have approximately 33 prescribed sizes with each size further having three variants of light, medium and heavy components. The company is one of the few suppliers approved for supplying pipes used in fire sprinklers in UAE.

Financials

(Rs. Crores)

For the year ended / As on	31-03-2017	31-03-2018
	Audited	Provisional
Total Operating Income	630.53	667.92
EBITDA	32.02	32.57
PAT	4.46	5.32



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Total Debt	129.66	117.13
Tangible Net Worth	84.14	90.11
Ratios		
a. EBITDA Margin	5.08	4.88
b. PAT Margin	0.71	0.80
c. Overall Gearing ratio	1.54	1.30

Note: Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Disclosure:

Rating History for last three years: N.A

S. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crores)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Fund Based Facilities	Long Term	118.00	IVR BBB/Stable Outlook	--	--	--
2.	Non-Fund Based Facilities	Short Term	70.00	IVR A3+	--	--	--
3.	Term Loan	Long Term	12.00 (including proposed term loan of Rs.8.5 crores)	IVR BBB/Stable Outlook	--	--	--

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.

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Annexure I: Details of Facility

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crores)	Rating Assigned/ Outlook
Long Term Fund Based Facilities- Cash Credit	-	-	-	118.00	IVR BBB/Stable Outlook
Short Term Non-Fund Based Facilities- LC/BG	-	-	-	70.00	IVR A3+



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Long Term Debt-Term Loan	-	-	June 2020	3.50	IVR BBB/Stable Outlook
Long Term Debt-Proposed Term Loan	-	-	-	8.5	IVR BBB/Stable Outlook