CRISIL Ratings

Press release

August 08, 2023 | Mumbai

ERW steel pipe makers set for 10-12% revenue growth this fiscal

Steady profitability, comfortable balance sheets to keep credit profiles stable

Revenue of electric resistance welded (ERW) steel pipes manufacturers will grow 10-12% this fiscal, owing to strong demand from the infrastructure, real estate, irrigation, and water supply and sanitation (WSS) sectors. The industry had logged 16-18% growth last fiscal, driven by pent-up demand.

Rising capacity utilisation, steady profitability and healthy balance sheets will keep credit profiles stable this fiscal, a CRISIL Ratings analysis of five players, accounting for more than half of the ERW pipe industry's volume, shows.

ERW is the largest segment of the steel pipes industry, accounting for ~70% of volume. The other segments — submerged arc welded pipes and seamless pipes — constitute the remaining. ERW pipes have predominantly been used for fluid transportation applications. But over the last few years, they are increasingly finding applications in the construction and infrastructure segments.

Says Anand Kulkarni, Director, CRISIL Ratings, "Increasing use of structural steel pipes in public infrastructure (railways, airports, metro), high-rise buildings and warehouses is pushing up demand for ERW pipes. A ~33% increase in budgetary allocation for infrastructure projects this fiscal will also provide leg-up. Large government investment in water infrastructure projects such as the Jal Jeevan mission and Har Ghar Nal Yojana will keep demand from the WSS and irrigation sectors steady."

Volume is expected to grow 12-15% this fiscal, backed by increased affordability with softened steel prices. Last fiscal, it had surged 25-28%, supported by a plunge in steel prices and pent-up demand.

The ERW segment has seen modest operating margin due to limited value addition, low entry barriers, and consequently, high competitive intensity. The segment has numerous unorganised companies, which have captured 30-40% of the market.

The organised manufacturers are increasing capacity for value-added products such as pre-galvanised, galvanised, coated and API-grade pipes to improve their product mix. This has led to steady improvement in their operating profitability over the past few years. The profitability of the CRISIL Ratings sample set is estimated at 6-6.5% this fiscal.

Says Rucha Narkar, Associate Director, CRISIL Ratings, "The ERW pipe capacity in India rose ~20% last fiscal and is not expected to increase materially this fiscal as focus will be on improving utilisation. Despite the capacity addition, utilisation is seen healthy at ~70% and improve gradually thereafter on strong demand. Notwithstanding the capital expenditure (capex), credit profiles should remain stable, backed by higher profitability — through increased share of value-added products — and comfortable leverage."

Healthy revenue growth and steady rise in profitability augur well for the capital structure of manufacturers. Their ratio of debt to earnings before interest, taxes, depreciation and amortisation is estimated to improve to ~0.7 time from ~0.9 time last fiscal. Interest coverage is expected above 14 times versus ~12 times last fiscal.

That said, volatile steel prices and slowdown in demand due to push back of projects by end-users will bear watching.

For further information contact:

Media relations	Analytical contacts	Customer service helpdesk
Aveek Datta Media Relations **CRISIL Limited** M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com **Prakruti Jani** Media Relations **CRISIL Limited** M: + 91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com **Rutuja Gaikwad** Media Relations **CRISIL Limited** M: +91 98195 22010 B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com	**Mohit Makhija** Senior Director **CRISIL Ratings Limited** B: +91 124 672 2000 mohit.makhija@crisil.com **Anand Kulkarni** Director **CRISIL Ratings Limited** B: +91 22 3342 3000 anand.kulkarni@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited)
CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ("CRISIL Ratings") is a wholly-owned subsidiary of CRISIL Limited ("CRISIL"). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisilratings.com

About CRISIL Limited
CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations. CRISIL is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: LINKEDIN | TWITTER | YOUTUBE | FACEBOOK

CRISIL PRIVACY

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER
This Press Release is transmitted to you for the sole purpose of dissemination through your newspaper / magazine / agency. The Press release may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL Ratings Limited (hereinafter referred to as "CRISIL Ratings"). However, CRISIL Ratings alone has the sole right of distribution (whether directly or indirectly) of its Press Releases for consideration or otherwise through any media including websites, portals etc.

CRISIL Ratings has taken due care and caution in preparing this Press Release. Information has been obtained by CRISIL Ratings from sources which it considers reliable. However, CRISIL Ratings does not guarantee the accuracy, adequacy or completeness of information on which this Press Release is based and is not responsible for any errors or omissions or for the results obtained from the use of this Press Release. CRISIL Ratings, especially states that it has no financial liability whatsoever to the subscribers/ users/ transmitters/ distributors of this Press Release. CRISIL Ratings or its associates may have other commercial transactions with the company/entity.

CRISIL Ratings Limited is a wholly owned subsidiary of CRISIL Limited.