

Rating Advisory

July 10, 2020 | Mumbai

Hi-Tech Pipes Limited

Advisory as on July 10, 2020

This rating advisory is provided in relation to the rating of Hi-Tech Pipes Limited

The key rating sensitivity factors for the rating include:

Upward factors

- Strengthening of the business risk profile, driven by increase in revenue and stability in earnings before interest, taxes, depreciation, and amortisation (EBITDA) per tonne
- Improvement in financial indicators, particularly interest coverage sustaining above 3 times
- Sustained deleveraging, with debt to EBITDA ratio sustaining below 3 times

Downward factors

- Decline in EBITDA per tonne
- Delay in correction in financial leverage, with debt to EBITDA ratio remaining above 3.5 times

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Hi-Tech Pipes Limited (HTPL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If HTPL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt.Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/CIR/P/2017/71dt.June 30,2017 and SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About the group

Incorporated in 1985 by Mr HL Bansal, HTPL is an ISO-9001 certified manufacturer of steel tubes and pipes and flat steel products. Operations are managed by Mr Ajay Bansal and Mr Anish Bansal. The manufacturing capacities are in Sikandrabad, Uttar Pradesh, and in Sanand, Gujarat. The company is listed on the National Stock Exchange.

HTL Metal commenced operations in 2017. Its manufacturing facility is in Hindupur, Andhra Pradesh. HTL Ispat was acquired by HTPL in fiscal 2019. The group plans to set up a manufacturing capacity at Khopoli in Maharashtra.

Please note: This advisory should not be construed as a rating reaffirmation.

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Rating Rationale

September 09, 2019 | Mumbai

Hi-Tech Pipes Limited *Ratings Reaffirmed ; CP Withdrawn*

Rating Action

Total Bank Loan Facilities Rated	Rs.231 Crore
Long Term Rating	CRISIL BBB+/Positive (Reaffirmed)
Short Term Rating	CRISIL A2 (Reaffirmed)

Rs.25 Crore Commercial Paper	CRISIL A2 (Withdrawn)
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1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL BBB+/Positive/CRISIL A2' ratings on the bank facilities of Hi-tech Pipes Ltd (HTPL; part of the Hi-Tech Pipes group). CRISIL has also **withdrawn** its rating on the company's commercial paper at the company's request. The rating action is in line with CRISIL's policy on withdrawal of ratings.

The ratings continues to reflect the Hi-Tech Pipes group's established market presence, diversification in the product profile and geographical reach, and improving financial risk profile. These strengths are partially offset by the large working capital requirement and exposure to risks arising from volatile raw material prices and intense competition.

Analytical Approach

CRISIL has taken a consolidated view on HTPL and its 100% subsidiaries, HTL Metal Pvt Ltd (HTL Metal) and HTL Ispat Pvt Ltd (HTL Ispat), together referred to as the Hi-Tech Pipes group. This is because these companies are in the same line of business, and HTL Metal and HTL Ispat are wholly owned by HTPL. CRISIL has treated unsecured loans of Rs 13.85 crore as 75% equity and 25% debt, as they are provided by the group's promoters and should remain in the business in the medium term.

Please refer Annexure - Details of Consolidation, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

* **Established market position:** Expansion in capacities, widening of the distributor network (to 350 in fiscal 2019 from 200 in fiscal 2016), and healthy relationships with key customers have helped revenue record a compounded annual growth rate of 39.45% over the three years through fiscal 2019, thus reflecting the company's established market presence. Turnover grew to Rs 1,358 crore in the fiscal 2019 from Rs 1,018 crore the previous fiscal.

* **Diversified product profile and improving geographical presence:** The company's diverse range of products, including tubes and pipes, cold-rolled strips, and engineering products, acts as a safeguard against cyclical and event-based risks. Geographic presence has improved too, with plants becoming operational in Gujarat and Andhra Pradesh and plans of setting up a manufacturing unit in Maharashtra.

* **Improving financial risk profile:** Fund infusion via warrants, along with limited reliance on debt, is likely to strengthen the capital structure and debt protection indicators in fiscal 2020. The total outside liabilities to tangible networth ratio improved to 2.22 times as on March 31, 2019, from 2.62 times a year earlier and is expected to improve to less than 2.0 times by March 31, 2020. Interest coverage was 2.4 times in fiscal 2019 and should improve over the medium term.

* **Moderate working capital requirement:** Gross current assets were 100-140 days over the three fiscals through March 2018, but they improved to 83 days as on March 31, 2019. Though operations are working capital-intensive, in line with industry norms, high growth in turnover has led to incremental requirement, as reflected in negative cash flow from operations until fiscal 2018. Although the group has managed its receivables at 30-40 days and inventory at 40-50 days, their future management will be closely monitored.

Weaknesses

* **Exposure to volatile raw material prices and intense competition:** Electric Resistance Welded pipe manufacturers are steel converters, and fluctuations in raw material prices (85% of the total revenue) are passed on to the consumer, but with a lag of 1-2 months. Hence, the margin remains partly susceptible to fluctuations in prices of steel (hot rolled coils). The monthly pricing mechanism followed by the company, along with the order-backed nature of inventory, should offer a shield from any adverse price movements.

Liquidity: Adequate

Liquidity is adequate: cash accrual, expected at Rs 40 crore in fiscal 2020, should sufficiently cover yearly maturing debt of Rs 14-15 crore. Utilisation of fund-based limit of Rs 194 crore averaged 70% over the 12 months through July 2019. The company plans to undertake capital expenditure of around Rs 27 crore in fiscal 2020 towards setting up of new capacities, funded through term debt of Rs 15 crore and equity infusion by the promoters. Cash and cash equivalents were low at less than Rs 1 crore as on March 31, 2019.

Outlook: Positive

CRISIL believes the Hi-Tech Pipes group's business and financial risk profiles will improve over the medium term.

Rating sensitivity factors

Upward factors

- * Strengthening of the business risk profile, driven by improvement in scale of operations and continued stability in earnings before interest, taxes, depreciation, and amortisation (EBITDA)/tonne metric
- * Improvement in financial indicators, particularly interest coverage sustaining above 3 times
- * Sustained deleveraging, with debt to EBITDA sustaining below 3 times

Downward factors

- * Decline in EBITDA/tonne metric
- * Delay in correction in financial leverage, with debt-to-EBITDA remaining above 3.5 times

About the Company

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HTL Ispat is also a wholly owned subsidiary of HTPL. It was acquired by HTPL in fiscal 2019. The group is planning to set up a new manufacturing capacity at Khopoli (Maharashtra).

Key Financial Indicators - Consolidated

As on / for the period ended March 31		2019	2018
Operating income	Rs crore	1,358.76	1,018.81
Reported profit after tax	Rs crore	27.35	21.01
PAT margin	%	2.01	2.06
Adjusted Debt/Adjusted Networth	Times	1.78	2.12
Interest coverage	Times	2.45	2.14

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	147.50	CRISIL BBB+/Positive
NA	Long-Term Loan	NA	NA	April 2022	23.5	CRISIL BBB+/Positive
NA	Letter of Credit	NA	NA	NA	60	CRISIL A2
NA	Commercial Paper	NA	NA	7-365 days	25	Withdrawn

Annexure - List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Hi-Tech Pipes Ltd	Full	Common management and engaged in the same line of business
HTL Ispat	Full	Common management and engaged in the same line of business
HTL Metal Pvt Ltd	Full	Common management and engaged in the same line of business

Annexure - Rating History for last 3 Years

		Current		2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	25.00	Withdrawn			31-12-18	CRISIL A2	30-12-17	CRISIL A2		--	--
Fund-based Bank Facilities	LT/ST	171.00	CRISIL BBB+/Positive			31-12-18	CRISIL BBB+/Positive	30-12-17	CRISIL BBB+/Stable			Suspended
Non Fund-based Bank Facilities	LT/ST	95.00	CRISIL A2			31-12-18	CRISIL A2	30-12-17	CRISIL A2			Suspended

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	147.5	CRISIL BBB+/Positive	Cash Credit	147.5	CRISIL BBB+/Positive
Letter of credit & Bank Guarantee	60	CRISIL A2	Letter of credit & Bank Guarantee	60	CRISIL A2
Long Term Loan	23.5	CRISIL BBB+/Positive	Long Term Loan	23.5	CRISIL BBB+/Positive
Total	231	--	Total	231	--

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings
CRISILs Criteria for Consolidation
CRISILs Criteria for rating short term debt
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