

Press Release

Hariom Pipe Industries Limited

November 14, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 64.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE BBB minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 64.00 crore bank facilities of Hariom Pipe Industries Limited. The outlook is '**Stable**'.

Incorporated in 2007, Hariom Pipe Industries Limited (HPIL), erstwhile Hariom Concast & Steels Private Limited is engaged in manufacturing of various steel products such as Mild Steel Billets, Hot Rolled Strips, Mild Steel Tubes and Scaffolding, at its manufacturing unit located at Balanagar Mandal, Mahabubnagar District, Telangana State. HPIL is promoted by Mr. Rupesh Kumar Gupta (Managing Director). The company sells its steel products under the brand name of 'HARIOM'.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the HPIL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established Track record of operations and experienced management**

HPIL is promoted by Mr. Rupesh Kumar Gupta with around two decades of experience in the steel industry. The company was incorporated in 2007 and was gradually expanded to the present total capacity of 29760 Metric Tons Per Annum (MTPA) for MS Billets, 20,000 MTPA each for HR Strips and MS Tubes. The company also has installed capacity of 800 MTPA for Scaffolding. Prior to incorporating HPIL, the promoters also worked in family owned companies engaged in steel business. Long vintage of operations helped the company to establish satisfactory relationship with the customers and suppliers for the healthy growth; In FY2018, top ten customers of the company contributed ~ 22 percent of the total revenues, thus ensuring low revenue concentration risk. Furthermore, promoters are resourceful and have been infusing funds in the form of preference share capital and unsecured loans to support the business requirement and improving scale of operations. The company's operating income witnessed a compound annual growth rate (CAGR) of 20 per cent over the past three years through FY2018 at Rs.106 crores. For six months ended September 2018, HPIL has reported revenues of about Rs.64.0 crores. The manufacturing facility of the HPIL is entirely integrated i.e. starting from manufacturing of MS Billet to the manufacturing of MS Tubes and Scaffolding accessories in the same premises at five different units; and the manufacturing facilities are in progressive assembly line model. Acuité believes that the promoter's extensive experience in the steel industry, demand from both Government and Private Infra segment would aid in improvement of the business risk profile of the company over the medium term.

- **Moderate financial risk profile**

HPIL's financial risk profile is marked by comfortable capital structure and moderate debt protection metrics. The gearing (debt-to-equity) has improved from 2.99 times as on March, 2016 to 1.31 times as on March, 2018 due to repayment of its term loans and accretions to reserves. Net worth is moderate at Rs.19.87 crore as of March 31, 2018. HPIL's moderate net cash accruals and debt has led to moderate NCA/TD and interest coverage ratio of 0.36 times and 5.38 times in FY2018 vis-à-vis 0.13 times and 2.68 times in FY2017, respectively. HPIL's cash accruals are Rs.9.06 crore in FY2018, and

expecting to generate cash accruals of over Rs.10.00 crore over the medium term, against repayment obligations of about Rs.4.50 crore per annum. With the on-going large capex of about Rs.40.2 crores for capacity expansion at a debt-to-equity of about 70:30, Acuité believes that the financial risk profile is expected to marginally deteriorate, though largely supported by promoter's infusion and moderate accruals.

Weaknesses

- **Moderate working capital operations**

HPIL has moderate working capital operations as evident from gross current assets (GCA) days of 155 as on March 31, 2018 as against 144 days as on March 31, 2017. The moderate GCA days were mainly due to high inventory and low debtor levels. The inventory days are high at 130 in FY2018 due to diversified product portfolio. The company's debtor days stood at 30 days as on March 31 2018 and provides credit period of 30 days to its customers. Moderate working capital management has led to moderate utilization of working capital limits over the past six months ended August 2018 to the extent of 80 per cent. Acuité believes that the working capital operations of the firm will remain moderate as evident from efficient collection mechanism, though high inventory levels are key rating sensitivity factor over the near term.

- **Cyclical and Intense competition due to fragmented nature of the industry**

Steel industry is cyclical in nature. Its growth is interlinked with the growth of the economy at large and, in particular, with the steel user industries such as railways, automobile, telecom and others. With HPIL's products being steel related materials, the demand and prices for the same are also cyclical and volatile depending upon the fortunes of the industry. HPIL is engaged in the manufacturing of M.S. Billets, H.R. Strips, M.S. Tubes and Scaffolding materials, characterized by high fragmentation and competition due to the presence of numerous players in India owing to relatively moderate entry barriers. High competitive pressure limits the pricing flexibility of the industry participants which induces pressure on the profitability.

Outlook: Stable

Acuité believes that HPIL will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues and better than expected cash accruals from early completion and commercial operations of the on-going expansion project. Conversely, the outlook may be revised to 'Negative' in case of higher-than-expected debt-funded capital expenditure or any stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	105.09	87.37	73.81
EBITDA	Rs. Cr.	15.22	6.96	2.52
PAT	Rs. Cr.	6.48	1.63	-1.53
EBITDA Margin	(%)	14.48	7.96	3.41
PAT Margin	(%)	6.17	1.87	-2.07
ROCE	(%)	29.88	12.61	1.27
Total Debt/Tangible Net Worth	Times	1.31	2.52	2.99
PBDIT/Interest	Times	5.38	2.68	1.15
Total Debt/PBDIT	Times	1.65	4.00	10.49
Gross Current Assets (Days)	Days	155	144	183

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BBB- / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.21	ACUITE BBB- / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	29.29	ACUITE BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3

Contacts

Analytical	Rating Desk
<p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in</p> <p>Sethu Madhav Analyst - Rating Operations Tel: 022-67141128 sethu.madhav@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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