Press Release

Hariom Pipe Industries Limited

November 06, 2019

Rating Upgraded

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

** Refer Annexure for details*

Rating Rationale

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

The rating upgrade is in view of consistent growth in revenues, which was on account of timely completion and stabilisation of the capacity expansion project, resulting in improvement in the operating matrices. Acuité believes going ahead the company will sustain the growth in revenues and profitability margins over the medium term.

HPIL was incorporated in 2007 by Mr. Rupesh Kumar Gupta. HPIL is engaged in manufacturing of various steel products such as Mild Steel Billets, Hot Rolled Strips, Mild Steel Tubes and Scaffolding with manufacturing facility located at Balanagar Mandal, Mahabubnagar District, Telangana State. 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. The company sells manufactured 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

- **Experienced management and improving business risk profile**
  HPIL was incorporated in 2007 and is promoted by Mr. Rupesh Kumar Gupta with around two decades of experience handling family owned companies engaged in steel business. The promoter's experience helped the company to establish relationship with the customers and suppliers for the healthy growth.
  The company's operating income witnessed a compound annual growth rate (CAGR) of 24 per cent over the past three years through FY2019 at Rs.133.60 crore. HPIL has reported revenues of about Rs.84.00 crores for H1FY20. The company has also expanded its capacity to the present total capacity of 74400 Metric Tons Per Annum (MTPA) for MS Billets, 84000 MTPA each for HR Strips and MS Tubes from 29760 Metric Tons Per Annum (MTPA) for MS Billets, 20, 000 MTPA each for HR Strips and MS Tubes, respectively. HPIL also has installed capacity of 800 MTPA for Scaffolding.
  Acuité believes that the HPIL will continue to benefit from promoter's extensive experience in the steel industry and its improving business risk profile over the medium term.

- **Healthy financial risk profile**

  HPIL's financial risk profile is moderate, marked by healthy net worth, low gearing and healthy debt protection metrics.

  The net worth of HPIL is healthy at around Rs.47.95 crores as on March 31, 2019 as against Rs.28.30 crore as on March 31, 2018. The net worth levels have seen significant improvement over the last three years through FY2019 on account of equity infusion in the form of preference share capital and unsecured loans from promoters (considered as quasi equity) of Rs.10.39 crore and healthy accretion to reserves during the same period.

  The company has followed a conservative financial policy in the past, the same is reflected through its peak gearing of 0.86 times as on 31 March, 2017. The leverage levels have improved marginally to around 0.84 times as on March 31, 2019. The company incurred capex of Rs.40.24 crore in last financial year to expand its scale of operations. The total outside liabilities to tangible net worth (TOL/TNW) levels are around 1.19 times as on March 31, 2019. The total debt of Rs.40.11 as on March 31, 2019 comprising of term loans to the tune of Rs.25.16 crore and working capital borrowings to the tune of Rs.14.94 crore.

  The debt protection metrics stood healthy marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) in the range of 2.68-5.21 times and 1.92-3.23 over the last three years through FY2019. This is due to the growth in operating margins of HPIL, which stood in the range of 7.96-12.72 per cent over the last three years through FY2019, as HPIL changed its product strategy. NCA/TD stood at 0.26 times in FY2019 against 0.54 times in FY2018.

  Acuité believes that the financial risk profile is expected to be at similar levels over the medium term as the company has no substantial capex plan.

Weaknesses

- **Working capital intensive operations**

  HPIL has intensive working capital operations as evident from gross current assets (GCA) days of 159 as on March 31, 2019 as against 154 days as on March 31, 2018. The GCA days were mainly due to high inventory days stood at 122 in FY2019 due to diversified product portfolio. The company's debtor days stood at 24 days as on March 31, 2019 and provides average credit period of 45 days to its customers. HPIL enjoyed 21 days of credit from its suppliers in FY2019, which moderates the working capital management marked by moderate utilization of working capital limits over the past six months ended July 2019 to the extent of 76 per cent. Acuité believes that the working capital operations of the company will remain same as evident from efficient collection mechanism, though high inventory levels are key rating sensitivity factor over the near term.

- **Cyclicality 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.

Rating Sensitivity

- Substantial improvement in scale of operation and profitability margins over the medium term.
- Improvement working capital cycle.

Material covenants

None

Liquidity position: Adequate

HIPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.3-10 crore during the last three years through FY2019, while its maturing debt obligations were in the range of Rs.1-5 crore over the same period. The cash accruals of the company are estimated to remain around Rs.13-21 crore during 2020-22, while its repayment obligation are estimated to be around Rs.6.00 crore. The working capital operations of HIPL remained at same level marked by gross current asset (GCA) days of 159 in FY2019. The cash credit limit remains utilised at 76 percent during the last one year ended July 2019. The company maintains unencumbered cash and bank balances of Rs.3.98 crore as on March 31, 2019. The current ratio stands at 1.97 times as on March 31, 2019. Acuité believes that the liquidity of the HIPL is likely to remain adequate over the medium term on account of adequate cash accrual against repayments over the medium term.

Outlook: Stable

Acuité believes that HPIL will maintain a 'Stable' outlook over the medium term from its promoter's industry experience and improving business risk profile. The outlook may be revised to 'Positive' in case of significant growth in its revenues and better than expected cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	133.60	105.09	87.37
EBITDA	Rs. Cr.	16.99	15.22	6.96
PAT	Rs. Cr.	8.22	6.48	1.63
EBITDA Margin	(%)	12.72	14.48	7.96
PAT Margin	(%)	6.15	6.17	1.87
ROCE	(%)	22.51	29.88	12.61
Total Debt/Tangible Net Worth	Times	0.84	0.59	0.86
PBDIT/Interest	Times	5.21	5.38	2.68
Total Debt/PBDIT	Times	2.32	1.08	2.59
Gross Current Assets (Days)	Days	159	154	144

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-Nov-2018	Cash Credit	Long Term	18.00	ACUITE BBB- / Stable (Assigned)
	Proposed Cash Credit	Long Term	8.00	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	0.21	ACUITE BBB- / Stable (Assigned)
	Proposed Term Loan	Long Term	29.29	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	8.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00 (Enhanced from Rs.18.00 crore)	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.21	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	28.94	ACUITE BBB/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.35 (Revised from Rs.29.29 crore)	ACUITE BBB/Stable (Upgraded from ACUITE BBB-/Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3+ (Upgraded from ACUITE A3)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3+ (Upgraded from ACUITE A3)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Simranjeet Kaur Rating Analyst Tel: 022-49294052 Simranjeet.kaur@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.