CARE Ratings
Professional Risk Opinion

No. CARE/KRO/RL/2017-18/2994

Mr. V.M.Sridharan
General Manager - Finance
Srikalahasthi Pipes Limited
Srikalahasthi Mandal
Rachagunneri
Chittoor District
Andhra Pradesh - 517 641

February 13, 2018

Confidential

Dear Sir,

Credit Rating for Bank Facilities aggregating Rs.651.93 crore

On the basis of recent developments including operational and financial performance of your company for, our Rating Committee has reviewed the following ratings:-

Facilities	Amount (Rs. crore)	Ratings[1]	Rating action
Long-term Bank Facilities	331.93	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE A+; Stable (A Plus; Outlook: Stable)
Short-term Bank Facilities	320.00	'CARE A1+' (A One Plus)	Reaffirmed
Total	**651.93 (Rupees Six hundred Fifty Once crore and Ninety Three lakh)**		

2. Refer **Annexure 1** for details of rated facilities
3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure-2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications*

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to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by February 15, 2017 we will proceed on the basis that you have no any comments to offer.

4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
8. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

Thanking you,

Yours faithfully,

Swati Chandak

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Encl : As above

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Disclaimer

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In case of partnership/proprietary concerns, the rating/outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure 1
Details of Rated Facilities

1. **Long-term facilities**

A. Term Loan

No	Banker / lender	Amount	Remarks	Repayment terms
1	HDFC bank	Rs.32.50 crores	Outstanding	Repayable in 14 quarterly installments till September 2020.
2	ICICI Bank	Rs.54.43 crores (USD 8.39 million)		Repayable in 7 half yearly installments till September 2020
	Total	**86.93**		

B. Fund Based

(Rs. Crores)

Sr. No.	Name of Bank	Fund Based Limits	
		CC	Total Fund Based Limit
1.	Punjab National Bank	5.00	5.00
2.	ICICI Bank	20.00	20.00
3.	HDFC bank	25.00	25.00
4.	Standard Chartered Bank	15.00	15.00
5.	IDBI Bank	40.00	40.00
6.	Andhra Bank	50.00	50.00
7.	Bank of India	25.00	25.00
8.	Yes Bank	65.00	65.00
	TOTAL	**245.00**	**245.00**

**CC- Cash Credit*

Total long-term facilities – (1A+1B) – Rs.331.93 crore

2. **Short-term Facilities**

Non Fund Based Limits

(Rs.crore)

Sr. No.	Name of Bank	Non Fund Based Limits		
		LC/BG	Others	Tenure as per Sanction
1.	Punjab National Bank	20.00	-	Upto 1 Year
2.	ICICI Bank	120.00	-	

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Sr. No.	Name of Bank	Non Fund Based Limits		
		LC/BG	**Others**	**Tenure as per Sanction**
3.	HDFC Bank	65.00	-	
4.	Standard Chartered Bank	40.00	-	
5.	IDBI Bank	50.00	-	
6.	Bank of India	25.00	-	
	TOTAL	**320.00**	-	

**LC – Letter of Credit; BG – Bank Guarantee*

Total short-term facilities – (2) – Rs.320 crore
Total facilities rated – (1+2) – Rs.651.93 crore

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Press release
Srikalahasthi Pipes Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating action
Long-term Bank Facilities	331.93	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE A+; Stable (A Plus; Outlook: Stable)
Short-term Bank Facilities	320.00	'CARE A1+' (A One Plus)	Reaffirmed
Total	**651.93 (Rupees Six hundred Fifty Once crore and Ninety Three lakh)**		
Commercial Paper^	**75.00 (Rupees Seventy Five crore only)**	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

^ aggregate of commercial paper and other fund based working capital borrowings should be within the assessed fund based working capital limits

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of Srikalahasthi Pipes Limited takes into account continuous improvement in the financial-risk profile of the company and recent infusion of funds by the way of Qualified Institutional Placement thereby improving the liquidity and debt coverage indicators.

The ratings continue to derive strength from long and satisfactory track record of operations, established position of the group in the domestic DI pipe segment, favorable location of the plant and satisfactory capacity utilisation.

The ratings also factor in volatility in input prices, risk of foreign exchange fluctuation and moderate operating cycle.

Going forward, the ability of the company to maintain a net debt of around Rs.150 crore, exposures in group companies, prospects of the DI pipe industry remains key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Successful raising of funds through Qualified Institutional Placement

In January 2018, the company has successfully raised Rs.250 crore through Qualified Institutional Placement (QIP). The issue price was Rs.360.50 per share (including a premium of Rs.350.50 per share) At present, the company does not have any firm plan for usage of such funds and has temporarily invested such funds in mutual funds, however, the management has maintained that its net debt (considering cash & cash equivalents) is not expected to go beyond Rs.150 crore in the future.

Long and satisfactory track record of operations

SPL has a successful track record of operations of more than two decades in the business of DI industry. SPL's products predominantly cater to the needs of water infrastructure development and its clientele includes water & sewerage divisions of various State Governments, local municipal bodies and construction companies. The company is now a part of Electrosteel group of Kolkata which is promoted by Mr. Umang Kejriwal. The group has an industry presence of more than six decades with interest mainly in the manufacturing of D.I. pipes.

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Favourable location of the plant

SPL predominantly operates in the Southern India with its manufacturing unit located at SriKalahasthi, a small town in Andhra Pradesh. Close proximity to raw materials coupled with proximity to end user market with low competition, provides the entity a significant advantage in terms of freight cost. Further, presence of limited players in the southern region provides SPL competitive edge in terms of freight.

Satisfactory capacity utilisation of DI Plant

SPL during Q4FY17 expanded its DI Pipe installed capacity from 2,25,000 mtpa to 3,00,000 mtpa in order to cater to the growing demand. Upon such expansion, during FY17, its effective capacity utilisation for DI Pipes facility stood at 96% as against 100.21% in FY16. The marginal decrease in the capacity utilisation was due to the planned shutdown of mini blast furnace in Q2FY17.

Improvement in debt coverage indicators and moderate operating cycle

While the revenue during FY17 was in line with FY16, operating profitability was marginally lower at 21.35% in FY17(P.Y. 24.44%) mainly on account of volatility in coking coal prices. Interest coverage remained comfortable at 6.50x in FY17.

During FY17, the company adopted IND AS and did a fair valuation of its Property Plant & Equipment's (PPE). Accordingly, FY16's fixed assets and networth were reinstated. As a result of the same, its networth as on March 31, 2016 increased to Rs.696.64 crore as against Rs.427.51 crore as per Indian Generally Accepted Accounting Principles. Networth as on March 31, 2017 stood at Rs.812.59 crore.

During FY17, the company repaid Rs.52.24 crore against its outstanding term debt as against a scheduled repayment of Rs.43.13 crore. Continuous repayment of debt and accretion of profits to reserves led to an improvement in SPL's overall gearing ratios. The same stood at 0.70x as on March 31, 2017 as against 0.79x as on March 31, 2016.

The working capital cycle deteriorated from 94 days to 120 days in FY17 on account of higher raw material inventory.

SPL's liquidity profile stood moderate as marked by a working capital cycle of around 120 days during FY17. The company also had a cash and cash equivalents of Rs.206.92 crore (including investment in mutual fund Rs.152.63 crore).

In 9MFY18 (refers to the period April to December 2017), the company reported a profit after tax of Rs.113.08 crore (Rs.109.04 crore in Q3FY17) on a total income of Rs.1,190.80 crore (Rs.789.41 crore in Q3FY17).

Key Rating Weaknesses

Volatility in input price

Raw material consumption is the single largest cost component for SPL. With company having no backward integration for its primary raw materials (such as coking coal, iron-ore), it has to resort to open market purchases at the prevailing market prices. Hence, any adverse movement in raw material price without any corresponding movement in finished good price might affect the performance of the company. Though, the company has a price variability clause in some of the contracts; however it exposes the company to risk arising on account of volatility in the raw material prices.

Foreign exchange fluctuation risk

SPL sources one of its major raw materials i.e. coking coal through imports for which it uses buyer's credit facility to minimize interest cost. Moreover, to part fund its capex programme in the past, the company has availed ECBs. Thus, it is exposed to the foreign exchange fluctuation risk.

Capital Expenditure

SPL has been undertaking various capex to improve the capacities and efficiency of its existing facilities. Till FY19 (refers to the period April 01 to March 31), the company is to incur an additional capex of around 65 crore for a) Increasing the capacity of Captive Power Plant from existing 14.5 MW to 16 MW and b) Increasing the capacity of the coke oven plant to 270,000 mtpa from existing 225,000 mtpa.

Industry outlook

DI Pipes offers unique properties for conveying water under pressure and other piping uses. The use of DI Pipes has been rapidly growing over the past 50 years owing to its high tensile strength along with corrosion resistance, pressure bearing

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ability, impact resistance and capacity to sustain static loading. All these make DI pipes most popular piping solution for transporting water and sewage. Over past few years, DI pipe industry has seen strong demand growth given government's focus on infrastructural projects in the country and smart cities. Major initiatives undertaken by the government are smart cities mission, Atal Mission for Rejuvenation and Urban Transformation project, Pradhan Mantri Awas Yojana or Housing for all by 2022 Mission, Heritage City Development and Augmentation Yojana, Jawarharlal Nehru National Urban Renewal Mission, urban transportation, swachh Bharat mission, etc.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies

About the Company

Incorporated in 1991, Srikalahasthi Pipes Limited (SPL; erstwhile known as Lanco Industries Ltd), is engaged in manufacturing of Ductile Iron (DI) spun pipes (installed capacity of 3,00,000 tonnes p.a.), pig iron (installed capacity of 2,25,000 tonnes p.a.) and port-land slag cement (installed capacity of 90,000 tonnes p.a.) with DI pipes as its core product (contributing about 81% to the gross sales of the company in FY17) at its manufacturing facility located at Chittor, Andhra Pradesh. In addition, the company also has a coke oven plant of 2,25,000 MTPA, Sinter plant of 5,00,000 MTPA and captive power plant of 14.5MW.

Initially promoted by LANCO group of Hyderabad, SPL was acquired in March 2002 by Kolkata based Electrosteel Castings Limited (ECL; rated CARE BBB+/CARE A2/CARE A3+) via acquisition of controlling stake of 48.54% in the company. Besides, SPL, the other group company of ECL includes Electrosteel Steels Limited (ESL-rated CARE D).

During FY17, SPL reported a PAT of Rs.140.16 crore on a total income of Rs.1,233.87 crore as against a PAT of Rs.155.13 crore on a total income of Rs.1197.60 crore during FY16.

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	320.00	CARE A1+
Term Loan-Long Term	-	-	September 2020	86.93	CARE AA-; Stable
Fund-based - LT-Cash Credit	-	-	-	245.00	CARE AA-; Stable
Short Term Instruments-CP/STD	-	-	-	75.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - ST-BG/LC	ST	320.00	CARE A1+	1)CARE A1+ (10-Jul-17)	1)CARE A1+ (31-Dec-16) 2)CARE A1+ (20-Jul-16)	1)CARE A1+ (03-Jul-15) 2)CARE A1 (01-Apr-15)	1)CARE A1 (15-Jul-14)
2.	Term Loan-Long Term	LT	86.93	CARE AA-; Stable	1)CARE A+; Stable (10-Jul-17)	1)CARE A+; Stable (31-Dec-16) 2)CARE A+ (20-Jul-16)	1)CARE A+ (03-Jul-15) 2)CARE A (01-Apr-15)	1)CARE A (15-Jul-14)
3.	Short Term Instruments-CP/STD	ST	75.00	CARE A1+	1)CARE A1+ (10-Jul-17)	1)CARE A1+ (14-Sep-16) 2)CARE A1+ (20-Jul-16)	1)CARE A1+ (03-Jul-15) 2)CARE A1 (01-Apr-15)	1)CARE A1 (15-Jul-14)
4.	Fund-based - LT-Cash Credit	LT	245.00	CARE AA-; Stable	1)CARE A+; Stable (10-Jul-17)	1)CARE A+; Stable (31-Dec-16) 2)CARE A+ (20-Jul-16)	1)CARE A+ (03-Jul-15) 2)CARE A (01-Apr-15)	1)CARE A (15-Jul-14)
5.	Non-fund-based - LT-Letter of credit	LT	-	-	-	-	1)Withdrawn (03-Jul-15) 2)CARE A (01-Apr-15)	1)CARE A (15-Jul-14)

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