Sambhv Steel Tubes Limited

October 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	356.56	CARE A; Stable	Assigned
Long Term Bank Facilities	292.00 (Enhanced from 100.00)	CARE A; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	20.00	CARE A; Stable / CARE A1	Assigned
Short Term Bank Facilities	196.44	CARE A1	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Sambhv Steel Tubes Limited (SSTL) considers the company's improving scale of operations & profitability over the last 4-5 years on the back of consistently increasing production capacities with backward and forward integration of facilities leading to increasing production volumes. The capacity utilisation has been satisfactory over the year despite the company adding capacities on a regular basis. The ratings also factor in the infusion of equity to the tune of ₹150 crores in FY24 through preferential allotment to a pool of High Net-worth Individuals (HNIs) leading to improvement in the liquidity and leveraging profile of the company.

The company's total operating income (TOI) increased from ₹243.41 crores in FY20 to ₹1286.20 crores in FY24 exhibiting a CAGR of 51.62%, on account of consistently increasing production capacity over the years and satisfactory capacity utilisation (70-80%) coupled with integrated nature of operation and addition of value-added steel products in the product profile leading to higher realisations. The margins have been healthy, with PBILDT margin reported at 15.17%, 12.61% & 12.49% during FY22, FY23 & FY24 respectively. The TOI and margins expected to improve in the near future on the back of company's ongoing planned capex to the tune of ₹347 crores for strengthening of its forward & backward integration, which is near to completion. The ratings also derive comfort from the extensive experience of the promoters in the iron & steel and steel tubes industry with long track record of operations, its diversified product portfolio with presence across regions, comfortable capital structure and debt protection metrices and strategic location of its plant.

The ratings are however tempered by SSTL's exposure to volatility of raw material prices, competitive & cyclical nature of the steel industry, project completion and stabilisation risk albeit near to completion status of the project and working capital intensive nature of operations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in total operating income above ₹2000 crores while sustaining PBILDT margins at current levels.
- Overall gearing ratio improving to below 0.50x on a sustained basis.

Negative factors

- Decline in total operating income by more than 20% and/or PBILDT margins below 11%.
- Any higher than envisaged debt funded capex resulting in overall gearing above unity.
- Any significant increase in working capital cycle above 60 days resulting in weakening of liquidity position of the company.

Analytical approach: Standalone

Outlook: Stable

The stable outlook assigned to the long-term rating is based on the company's ability to maintain its financial risk profile marked by increasing scale of operations and steady profitability levels while maintaining its capital structure and debt protection indicators at around current levels.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

CareEdge RATINGS

Detailed description of key rating drivers:

Key strengths

Experienced promoters with long track record of operations: SSTL (formerly known as Sambhv Sponge Power Private Limited) was acquired by the Raipur based Goyal family in the year 2017. The Raipur based Goyal group has been involved in the manufacturing of iron & steel products since 1989 through group's first company - Ganpati Sponge Iron Private Limited (GSIPL). The group in the year 2009 further spread its business in the industry by setting foot in manufacturing of mild steel structural products such as Angels & Channels in its second company - S.Payerlal Ispat Private Limited (SIPL). SSTL is promoted and managed by Mr. Suresh Kumar Goyal, Mr. Vikas Kumar Goyal, who are supported by an experienced team of professional with extensive experience in the steel & steel tubes industry segment, while the other group companies are managed by Mr. Ashish Goyal and Mr. Manoj Kumar Goyal.

Strategic Location of the plant: The manufacturing facility of the company is located in close proximity to the sources of the main raw material (i.e. iron-ore and coal) required for the manufacturing of its products. The iron ore is sourced from suppliers like NMDC Bacheli & Kirandul which are based out of Chhattisgarh (300 to 400 kms from company's plant in Raipur, Chhattisgarh) and produces highest grade of iron ore in the country. Further, coal is sourced mainly from Southeastern coalfields (SECL) mines like Dipka, Gevra, etc. (~250 kms from the company's plant) which aids towards optimization of freight cost and towards an efficient stable supply chain. The plant is also well connected through road (National Highway (NH30) is ~6 kms from the plant) and rail transport (Tilda Railway Station and siding is 9 kms from plants) which facilitates easy transportation of raw materials and finished goods.

Diversified product & customer portfolio with foray into Steel products with presence across regions: The company is engaged in the manufacturing of wide range of products which includes ERW black/GI pipes & tubes, Steel door frames and structural tubes. SSTL's primary business is into steel products, however with its foray into other value-added products like Stainless Steel, GP coils and GP Pipes will help the company diversify their product portfolio, which in turn helps it to reach a wider customer base and reduces the risk of slowdown in any particular segment. SSTL located strategically in Central India, is roughly equidistant from the North, South, East and West of India that allows the company to save time & money for the end user and the company. SSTL caters to 35+ distributors & 600+ dealers respectively spread across the country.

Consistent growth in scale of operations & profitability on the back of satisfactory capacity utilisation and integrated operations: The operational performance of SSTL has shown improvement on a sustained basis. The total operating income (TOI) increased from ₹243.41 crores in FY20 to ₹1286.20 crores in FY24 exhibiting a CAGR of 51.62%, on account of consistently increasing production capacity over the years coupled with fully integrated operation and addition of value-added steel products in the product profile leading to higher realisations. The company has added capacity to its billets and rerolled division and has forayed into structural tubes division over the last 4-5 years leading to largely integrated operations. The total installed capacity of the company as on March 31, 2024 stood at 105,000 MT for sponge iron, 317,400 MT for Billets, 350,000 MT for HR sheets & coils and 250,000 MT for HR pipes. The capacity utilisation over the years has been satisfactory in the range of 67% to 82% over the last 3 years despite continuously increasing capacity.

Margins have been healthy, with PBILDT margin reported at 15.17%, 12.61% & 12.49% during FY22, FY23 & FY24. PBILDT per ton has moderated slightly from FY22 to FY24 due to rising power costs owing to higher purchase of power from grid to meet the increasing scale of operations, as well as slight increase in other miscellaneous expenses related to operations and capex. With the augmentation of the capex being incurred in FY25, the TOI and PBILDT margin is expected to improve in the medium term.

Iron & steel industry is a power intensive industry wherein stable supply of power is required favourably at minimum possible cost. Power cost minimisation is possible through utilization of captive fuel sources leading to a relatively stable supply source & lower power cost leading to better operational efficiency. The company has both a 6 MW Waste Heat Recovery Based (WHRB) and a 9 MW Atmospheric Fluidized Bed Combustion (AFBC) CPP of 15MW as on March 31, 2024. In FY25, the company is in the process of adding another 10 MW WHRB to its existing power capacity to further help reduce its dependency on external power sources and reduce power costs.

Comfortable capital structure and debt protection metrices: The financial risk profile of the company is moderate marked by overall gearing of 0.80x as on March 31, 2024 which improved from 1.36x as on March 31, 2023 on the back of healthy net worth base of ₹438.23 crores as on March 31, 2024 which increased from ₹211.00 crores as on March 31, 2023 on account of profits accumulation during the year and infusion of equity to the tune of ₹150 crores.
During FY24, the company has initiated capex for enhancing its plant capacity in two phases for a total project outlay of ₹347 crores against which term loan of ₹237.75 crores are to be drawn. The capital structure is expected to remain healthy despite the new capex owing to comfortable net worth base of the entity. The accruals from profits over the years were largely used towards funding of the planned capex, with very modest utilization of WC limits.

Interest coverage ratio and TD/GCA has stood comfortable at 5.13x and 3.25x in FY24 respectively. TOL/TNW also stood comfortable at 1.14x as on March 31, 2024.

Key weaknesses

Highly competitive and cyclical industry scenario: Steel is a cyclical industry, strongly correlated to economic cycles since its key users viz., construction, infrastructure, automobiles and capital goods are heavily dependent on the state of the economy. Besides local factors, the global demand supply situation especially China is a major factor impacting the steel prices and volumes. The producers of steel products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility in the steel prices.
The steel pipes industry is highly competitive due to presence of various organized and unorganized players and expanding applications of various types of steel pipes. Although, over the years the industry has become more organized with the share of unorganized players reducing, the margins continue to be under pressure due to fragmentation of the industry. However, SSTL with its wide product range, fully integrated manufacturing facility, diversified market and widespread marketing network has a certain edge over other organized players in the industry.

Profitability susceptible to volatility in input prices: The major raw material [i.e., iron ore and coal] forms the largest component of total cost of sales of steel products. The basic raw materials such as iron ore, coal, limestone, dolomite, manganese ore which are used for production of sponge iron and billets are directly sourced from the domestic market and the prices of the same are volatile in nature. Iron ore and coal requirement for sponge iron are procured on spot prices, exposing the PBILDT margins to raw material price fluctuation risk.

Working capital intensive nature of the operations: SSTL has working capital intensive nature of business operations. Owing to the wide product range, the company must maintain inventory for raw material as well as finished goods. Moreover, raw material is purchased majorly on advance payment which leads to moderate utilisation of WC requirement.
Gross current assets stood at 86 days during FY24, against 89 days during FY23 and 85 days during FY22. Working capital cycle also improved to 48 days in FY24, compared with 60 days in FY23 and 36 days in FY22. Improvement was largely on account of reduction in Average Inventory period to 47 days in FY24 from 58 days in FY23. Average collection period remained comfortable at 20 days in FY24 from 13 days in FY23.

Project completion and stabilisation risk albeit near to completion status of the project: In FY24, SSTL had proposed to strengthen its forward & backward integration by augmenting its installed capacity of Sponge Iron Division, Steel Melting Shop (based on Induction Furnace Route), the Power Generation plant and establish a Pipe Mill with Captive Power Generation. The said expansion is being done in two phases – Phase 1 entails expansion of Sponge Iron capacity from 105,000 MTPA to 280,000 MTPA & expansion of WHRB captive power plant from 6 MW to 16 MW at a total projected cost of Rs. 162.04 crores which is to be funded in the D:E ratio of 2:1. The project though delayed by around 3 months on account of heavy monsoon, is expected to commence operations from Sep'24. There has been no cost overrun in the project owing to the delay.
Phase 2 for expansion of billets capacity from 317,400 MTPA to 360,000 MTPA, Pipe Mill from 250,000 MTPA to 350,000 MTPA, Rolling Mill from 350,000 MTPA to 450,000 MTPA at our Sarora (Tilda) facility and addition of a Galvanized Pipe (GP) with capacity of 100,000 MTPA and Cold Rolling Mill for production of Stainless Steel HRAP and CR coils at our Kuthrel (Raipur) facility at a total projected cost of ₹185.41 crores which is to be funded in the D:E ratio of 2:1. The projected COD is Oct'24.

The project work for both the phases have been completed, trial runs are ongoing, and both the phases are expected to achieve COD as envisaged.

Liquidity: Adequate

Liquidity is marked adequate with gross cash accruals (GCA) of ₹107.85 crores against repayment obligations of ₹34.05 crores in FY24. Further, SSTL also usually has a buffer available in working capital limits with average utilization being ~36% of available WC limits during last 12 months ended April 2024. The company presently has a sanctioned WC limit of ₹ 397 crores which is adequate for meeting its short-term working capital needs.
SSTL also had free Cash & Bank balance to the tune of ₹40.60 crores as on March 31, 2024. The company will have repayment obligation of ₹38 crores in FY25 against which it is expected to generate sufficient GCA.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Iron & Steel

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Industrial Products	Iron & Steel Products

SSTL is engaged in the process of manufacturing of Sponge Iron, Billets and HR sheets, coil and pipes. The company has an installed capacity of 105,000 MT for sponge iron, 317,400 MT for Billets, 350,000 MT for HR sheets & coils and 250,000 MT for HR pipes. The company also has 15 MW captive power plant – a 6 MW Waste Heat Recovery Boiler (WHRB) & a 9 MW Atmospheric Fluidised Bed Combustion (AFBC) system as on March 31, 2024. The company is promoted and managed by Mr. Suresh Kumar Goyal, and Mr. Vikas Kumar Goyal, along with a team of industry experienced professionals.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	937.48	1,286.20
PBILDT	117.73	160.65
PAT	60.38	82.44
Overall gearing (times)	1.36	0.80
Interest coverage (times)	5.47	5.13

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	292.00	CARE A; Stable
Fund-based - LT-Term Loan		-	-	30-04-2033	356.56	CARE A; Stable
Fund-based - LT/ ST-Standby Line of Credit		-	-	-	20.00	CARE A; Stable / CARE A1
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	85.00	CARE A1
Non-fund-based - ST-Letter of credit		-	-	-	110.00	CARE A1
Non-fund-based-Short Term		-	-	-	1.44	CARE A1

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	292.00	CARE A; Stable	1)CARE A; Stable (01-Oct-24)	-	-	-
2	Fund-based - LT-Term Loan	LT	356.56	CARE A; Stable				
3	Fund-based - LT/ ST-Standby Line of Credit	LT/ST	20.00	CARE A; Stable / CARE A1				
4	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	85.00	CARE A1				
5	Non-fund-based - ST-Letter of credit	ST	110.00	CARE A1				
6	Non-fund-based-Short Term	ST	1.44	CARE A1				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-Standby Line of Credit	Simple
4	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
5	Non-fund-based - ST-Letter of credit	Simple
6	Non-fund-based-Short Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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