Hi-TECH PIPES

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To

14th August, 2021

National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1, G Block,
Bandra Kurla Complex-Bandra(E),
Mumbai-400051,

NSE Symbol: HITECH

Subject: Intimation of Credit Rating

Dear Sir/Madam,

Pursuant to regulation 30 of the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015, we would like to inform you that Brickwork Ratings has reaffirmed Bank Loan Facilities of the Company as mentioned herein below. Further, the Outlook is revised to Stable from Negative factors in the resilience of business and swift recovery from initial impact of Covid-19 induced lockdown, as well as improved demand outlook for various end-user sectors.

Total Bank Loan Facilities Rated	**Rs.399.65 Crores**
Long Term	BWR A- (Stable) Reaffirmed
Short Term	BWR A2 Reaffirmed

The detailed Rating Rational is attached herewith and also available at the website of the Company www.hitechpipes.in

Kindly take the note of above information on record and oblige.

Thanking you,

Yours faithfully,

***For* Hi-Tech Pipes Limited**

Arun Kumar
Company Secretary

Rating Rationale

13 August 2021

Hi-Tech Pipes Ltd.

Brickwork Ratings reaffirms the ratings with a change in Outlook to Stable for the Bank Loan Facilities amounting to Rs. 399.65 Crs of Hi-Tech Pipes Ltd.

Facility**	Previous Amount Rated (Rs. Crs)	Present Amount Rated (Rs. Crs)	Tenure	Previous Ratings (Jul, 2020)	Present Ratings*
Fund based	241.40	**277.65**	**Long Term**	BWR A- Negative	**BWR A- Stable Reaffirmed**
Non Fund Based	127.00	**122.00**	**Short Term**	BWR A2	**BWR A2 Reaffirmed**
Total	368.40	**399.65**	**Rupees Three Hundred Ninety Nine Crores & Sixty Five Lakhs Only**		

** Details of facilities are given in Annexure I.
*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

Rating Action/Outlook:
Brickwork Ratings (BWR) has reaffirmed the long-term rating to BWR A- with a Stable outlook and short-term rating to BWR A2 for the bank loan facilities of Hi-Tech Pipes Ltd (HTPL or the company). The Outlook revision to Stable from Negative factors in the resilience of business and swift recovery from initial impact of Covid-19 induced lockdown, as well as improved demand outlook for various end-user sectors such as infrastructure, agriculture, automobile, etc. HTPL has rolling orders from its customers through a distribution and dealership network, which provides revenue visibility in the medium term.

The rating continues to derive comfort from the company's experienced promoters, established long track record of over three decades with a demonstrated execution capability, diversified product portfolio with a widespread distribution network spread across multiple states and improved debt protection metrics and financial risk profile. However, these strengths are partially offset by thin profitability margins, susceptibility to cyclicality and fluctuation in raw material prices, and the inherent risk of the industry, along with intense competition.

BWR has principally relied on the consolidated audited financial results of HTPL upto 31 March 2021, Q1FY22 unaudited financials and projected financials for FY22 and FY23, and publicly available information/ clarifications provided by the company's management./

Credit Strengths-:

- **Established track record of operations and experienced management:**
  The company commenced its operations in 1985 and has a successful track record of more than three decades in the existing business line. HTPL's long track record and the extensive experience of promoters have helped establish relations with various stakeholders for its business. The company was established and is managed by the Bansal family, holding a 60.95% equity stake in HTPL as of 30 June 2021. Furthermore, the promoters are assisted by a team of experienced professionals in managing the company's daily business operations.

- **Diversified product portfolio:**
  The company manufactures and sells steel tubes and pipes, cold rolled products and various engineering products, such as metal crash barriers and structures, which cater to varied industries and reduce the risk from a slowdown in a specific industry.

- **Widespread distribution network through established relations with distributors:**
  The company's strong distributorship emanates from a strong network of 390 plus registered dealers and a distribution network. They currently serve in the Northern, Western and Southern regions of India. They also marginally export to countries such as Nepal, Germany, Italy, Srilanka and Singapore.

- **Improved debt protection metrics and financial risk profile** :
  In terms of the debt coverage indicators, the interest service coverage ratio (ISCR) improved to 2.19x in FY21 as compared to 1.97x in FY20, and the debt service coverage ratio (DSCR) remained constant at 1.30x in FY21. The analysed tangible networth improved to Rs. 227.89 Crs in FY21 from Rs. 190.66 Crs in FY20. The total operating income (TOI) on a consolidated basis stood at Rs. 1,340.63 Crs with a profit after tax (PAT) of Rs. 22.80 Crs in FY21. In Q1FY22, the company achieved a TOI of Rs. 383.26 Crs with a PAT of Rs. 8.89 Crs and an ISCR of 3.01x.

- **Improving cash flow generation** :
  HTPL reported improved net operating cash flow after working capital changes of Rs 53.90 crs and free cash flow generation of Rs. 26.30 crs in FY21.The CFO/Gross interest cover stood at 2.92x in FY21 as against 1.88x in FY20.

Credit weaknesses-:

- **Thin profitability margins:**
  The operating profit margins (OPM) and net profit margins (NPM) marginally improved to 5.28% and 1.70%, respectively, in FY21 from 4.90% and 1.69%, respectively, in FY20. Margins are low due to stiff competition.

- **Improving but still high leverage and gearing:**
  HTPL reported an improvement in net debt to EBITDA ratio to 4.2 x in FY21 from 5x in FY20, yet the leverage is still high for the rating category. The analysed gearing improved to 1.29x in FY21 from 1.55x in FY20.

- **Susceptibility to cyclicality and fluctuation in raw material prices:**
  Profitability is vulnerable to fluctuations in the prices of raw materials (such as HR Coil) as the latter constitutes ~90% of the company's operating expenses. Furthermore, the company's performance is linked to the steel industry, with cyclical changes in demand and price volatility. Any slowdown may in turn adversely affect demand for steel products over the medium term. However, the risk is mitigated by the absence of long-term contracts; the company gets continuous orders, and at any time, the company has orders in hand of around 20-25 days, which protects the company to an extent from movements in raw material prices.

- **Inherent risk of the industry, and intense competition:**
  The industry is highly fragmented, with the presence of both organised and unorganised players providing similar products/services. Hence, the company faces competition from regional players, leading to intense competition and pricing pressures, which in turn affects the company's profitability margins.

Analytical Approach
For arriving at its ratings, BWR has applied its rating methodology as detailed in the rating criteria below (hyperlinks provided at the end of this rationale). BWR has analysed HTPL's credit profile by considering the consolidated financial statements of the company owing to financial and operational linkages between the parent and subsidiaries, common management and fungible cash flows. The entities considered in the consolidated financial statements are HTL Metal Pvt. Ltd [HMPL] HTL Ispat Pvt. Ltd [HIPL] and Hitech Metalex Pvt Ltd [HTMPL].

RATING SENSITIVITIES

Upward: BWR may revise the ratings upward in the case of a substantial improvement in the scale of operations, along with the sustenance of the analysed gearing below 1x and ISCR above 2.8x .
Downward: BWR may revise the rating downward in the case of a significant reduction in the scale of operations, operating margins, and/or deterioration in debt protection metrics (ISCR below 2x).

Liquidity Position (Adequate)
The company has an adequate liquidity position. There are long-term secured borrowings from banks, amounting to Rs. 92.37 Crs, as on 31 March 2021. Against a current portion of long term debt (CPLTD) of Rs 16.61 Crs in FY21, the company had a cash accruals of Rs. 33.82 Crs in FY21. The company projected to generate cash accruals of Rs. 44.61 Crs in FY22 against a CPLTD of Rs. 21.89 Crs, thereby indicating an adequate liquidity position. The average utilisation of working capital bank limits of the company stood around 75% during the last 12 months ending 31 July 2021.

About the entity:

Hi-Tech Pipes Ltd (HTPL) was incorporated as Ram Lal Harbans Lal Ltd on 2 January 1985, and the name of the company was changed to Hi-Tech Pipes Ltd on 15 October 1986. It is engaged in the manufacturing of steel tubes and pipes, cold rolled products and various engineering products, such as metal crash barriers and structures. The promoter group held a 60.95% equity stake in the company as on 30 June 2021. It is listed on the National Stock Exchange (NSE). They have three manufacturing units in India with a capacity of 5,75,000 metric tonne per annum, located in Sikandarabad, Uttar Pradesh; and Sanad, Gujarat. It is an ISO certified company.

Key Financial Indicators (Consolidated)

Key Financials			
	Units	**31/Mar/2020**	**31/Mar/2021**
Result Type		**Audited**	**Audited**
Total Operating Income	Rs. Cr	1209.62	1340.63
OPBDIT	Rs. Cr	59.23	70.80
PAT	Rs. Cr	20.39	22.80
Tangible Net Worth (Analysed)*	Rs. Cr	190.66	227.89
Total Debt/TNW (Analysed)	Times	1.55	1.29
Current Ratio	Times	1.23	1.37

*Considering interest free unsecured loan from directors as part quasi equity

Key covenants of the instrument/facility rated: Not Applicable

Status of non-cooperation with previous CRA (if applicable): Reason and comments: NA

Any other information: NA

Rating History for the last three years: (Including suspended/withdrawn ratings)

S.No	Facility	Current Rating (2021)				Rating History			
		Type	Tenure	Amount (In Crs)	Rating	08 Jul 2020	20 Mar 2020	03 Jan 2019	2018
1	Bank Loan	Fund Based	Long Term	277.65	BWR A- Stable Reaffirmed	BWR A- Negative	BWR A- Stable	BWR A- Stable	-
		Non Fund Based	Short Term	122.00	BWR A2 Reaffirmed	BWR A2	BWR A2	BWR A2	-
Total				399.65	Rupees Three Hundred Ninety Nine Crores & Sixty Five Lakhs Only				

COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at **www.brickworkratings.com / download / ComplexityLevels.pdf.** Investors' queries can be sent to **info@brickworkratings.com.**

Hyperlink/Reference to Applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Rating Criteria - Manufacturing Companies**
- **Short Term Debt**

Analytical Contacts	
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Hi-Tech Pvt Ltd
ANNEXURE I
Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank/Lender	Type of Facilities	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1	State Bank of India	CC	57.50	-	57.50
		BG	-	8.00	8.00
		LC	-	40.00	40.00
2	Canara Bank	CC	5.00	-	5.00
		WCDL	20.00	-	20.00
		BG	-	2.00	2.00
		LC	-	10.00	10.00
3	HDFC Bank	CC/WCDL	77.00	-	77.00

		Term Loan	12.47	-	12.47
4	Yes Bank	CC/WCDL	5.00	-	5.00
		Term Loan	4.00	-	4.00
		LC	-	30.00	30.00
5	SVC Cooperative Bank Ltd	CC	1.50	-	1.50
		WCDL	23.00	-	23.00
		Term Loan	9.10	-	9.10
		LC/BG	-	7.00	7.00
6	Axis Bank	CC	10.00	-	10.00
		WCDL	15.00	-	15.00
7	IDFC First Bank	LC/BG	-	25.00	25.00
8	Indusind Bank	Term Loan	13.08	-	13.08
9		Proposed	25.00	-	25.00
TOTAL					**399.65**

Total: Rupees Three Hundred Ninety Nine Crores and Sixty Five Lakhs Only

ANNEXURE II
List of entities consolidated

Name of Entity	% ownership	Extent of Consolidation	Rationale for consolidation
HTL Metal Pvt. Ltd	100.00	Full Consolidation	Due to financial and operational linkages between the parent and subsidiaries, common management and fungible cash flows
HTL Ispat Pvt. Ltd.	100.00		
Hitech Metalex Pvt Ltd	100.00		

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