December 24, 2021

Baba Ispat (P) Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	11.00	14.00	[ICRA]BB+ (Stable); Reaffirmed
Bank Guarantee	1.55	1.00	[ICRA]A4+; Reaffirmed
Untied Limits	2.45	0.00	-
Total	**15.00**	**15.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation continues to factor in the experience of the promoters of Baba Ispat (P) Ltd (BIPL) in the steel industry for close to two decades. The ratings reaffirmation also reflects the company's established trade relationships with the clients, which enabled it to get repeat business over the years. With limited debt-funded capital expenditure over the last few years, the company's term debt repayment obligations have remained marginal, leading to a comfortable debt service coverage ratio (DSCR). ICRA expects the same to remain comfortable going forward as the company has no plans of undertaking any debt financed capital expenditure growth plans at present. The ratings also factor in the company's diversified revenue base across multiple geographies and customers, which partly reduces the downside risks arising from region/customer-specific demand concerns.

However, the ratings continue to be constrained by the company's relatively small scale of current operations and low net worth base. The ratings also remain constrained by the lack of backward integration, which keeps the profit margins low. The company is also exposed to the cyclicality inherent in the steel industry, leading to increased susceptibility of BIPL's profitability to the volatility in raw material prices and end-product realisations. The ratings also factor in the intense competition across the value chain of the long steel industry due to low product differentiation, and consequent intense competition, which limit the pricing flexibility.

The Stable outlook on the long-term rating reflects ICRA's expectations that BIPL will continue to benefit from the favourable operating environment for its products while sustaining its credit profile in the near term.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters – The promoters have extensive experience of close to two decades in the steel industry. ICRA also notes the company's established trade relations with the clients, which has enabled it to get repeat business over the years.

Marginal term debt repayments results in a comfortable DSCR – With limited debt-funded capital expenditure over the last few years, the company's term debt repayment obligations have remained marginal, leading to a comfortable debt service coverage ratio (DSCR) of 3.14 times in FY2021 (PY: 2.82 times). ICRA expects the same to remain comfortable going forward as the company has no plans of undertaking any debt-financed capital expenditure growth plans at present.

Diversified revenue base across multiple geographies/ customers – BIPL derived around 48% of its revenues from exports in FY2021, increasing from around 18% in FY2020 as domestic consumption remained tepid due to pandemic induced disruptions in the first half of FY2021. The company's sales are also diversified across customers, with the top 10 customers accounting for around 35% of the sales in FY2021. BIPL's presence across customers and geographies partly reduces downside risks arising from region/customer-specific demand concerns.

Credit challenges

Relatively small scale of current operations and low net worth base – Notwithstanding the increase in scale of operations of BIPL in FY2021, the same remained small compared to other larger established players in the secondary steel industry. This constrains its ability to benefit from the economies of scale and limits its pricing flexibility vis-à-vis that of the bigger entities operating in the industry. ICRA also notes that the net worth base of BIPL remained at a relatively low level of around Rs.15 crore as on March 31, 2021, which constrains its ability to withstand a sustained weak operating environment.

Lack of backward integration keeps profit margins low – Due to the limited value-added nature of the business, the company's operating profitability has historically remained low. BIPL's lack of captive sources of input materials exposes it to fluctuations in input material prices compared to integrated players. The same tempers the profit margins to a large extent. Further, payouts like the directors' remuneration, affected its profitability metrics. The ability of the company to improve its profitability from the prevailing levels will be a key monitorable, going forward.

Exposure to fluctuations in raw material prices – BIPL procures billets/ingots from the domestic suppliers, prices of which depends on both domestic demand and steel prices prevailing in the international market. Its profitability is vulnerable to the fluctuating prices and the commoditised nature of its finished products. Although the prices of BIPL's finished steel products generally move in tandem with the input material cost, there could be short-term decoupling/ divergence in the raw material and end-product price movements, which could lead to volatile margins.

Fragmented and commoditised market due to intense competition – The structural steel manufacturing businesses are characterised by intense competition across the value chain due to low product differentiation, and consequent high competition, which limit the pricing flexibility of the players, including BIPL.

Liquidity position: Stretched

The liquidity position of the company is **stretched,** marked by negative cash flow from operations and negative free cash flows reported in FY2021. The same is likely in FY2022 following a sharp rise in steel prices, which would lead to more dependence on working capital borrowings. BIPL's month-end utilisation levels of working capital facilities exceeded 98% of its sanctioned limits during August to September 2021, leading to a low liquidity headroom.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings of BIPL if the entity is able to demonstrate a significant increase in its scale of operation along with cash accruals from the business on a sustained basis, leading to an improvement in liquidity position and strengthening of the net worth base.

Negative factors – The ratings may be downgraded if there is a sustained period of weak earnings, resulting in the interest coverage remaining below 2.50 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of BIPL.

About the company

Incorporated in 2002, Baba Ispat (P) Ltd (BIPL) produces mild steel (MS) angles, MS channels and MS flats with an installed capacity of 60,000 metric tonnes per annum (MTPA). The company commenced its operation in November 2004. The manufacturing facility of the company is situated in Raniganj, Burdwan (West Bengal).

Key financial indicators (Audited)

BIPL Standalone	FY2020	FY2021^
Operating Income (Rs. crore)	92.38	107.02
PAT (Rs. crore)	0.73	1.00
OPBDIT/OI (%)	1.82%	2.61%
PAT/OI (%)	0.79%	0.94%
Total Outside Liabilities/Tangible Net Worth (times)	1.48	1.74
Total Debt/OPBDIT (times)	4.52	5.39
Interest Coverage (times)	1.47	2.36

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ^Provisional

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
CRISIL	CRISIL B(Stable)/A4; ISSUER NOT COOPERATING	March 18, 2021
CARE	CARE B(Stable)/A4; ISSUER NOT COOPERATING	November 3, 2021

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Dec 24, 2021	**Oct 7, 2020**	**Sep 4, 2019**	-
1	Cash Credit	Long Term	14.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-
2	Bank Guarantee	Short Term	1.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-
3	Working Capital Term Loan	Long Term	-	-	-	-	[ICRA]BB+ (Stable)	-

4	Untied Limits	Long term/ Short Term	-	-	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	14.00	[ICRA]BB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	1.00	[ICRA]A4+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Ritabrata Ghosh
+91 33 7150 1107
ritabrata.ghosh@icraindia.com

Deepayan Ghosh
+91 33 7150 1220
deepayan.ghosh@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

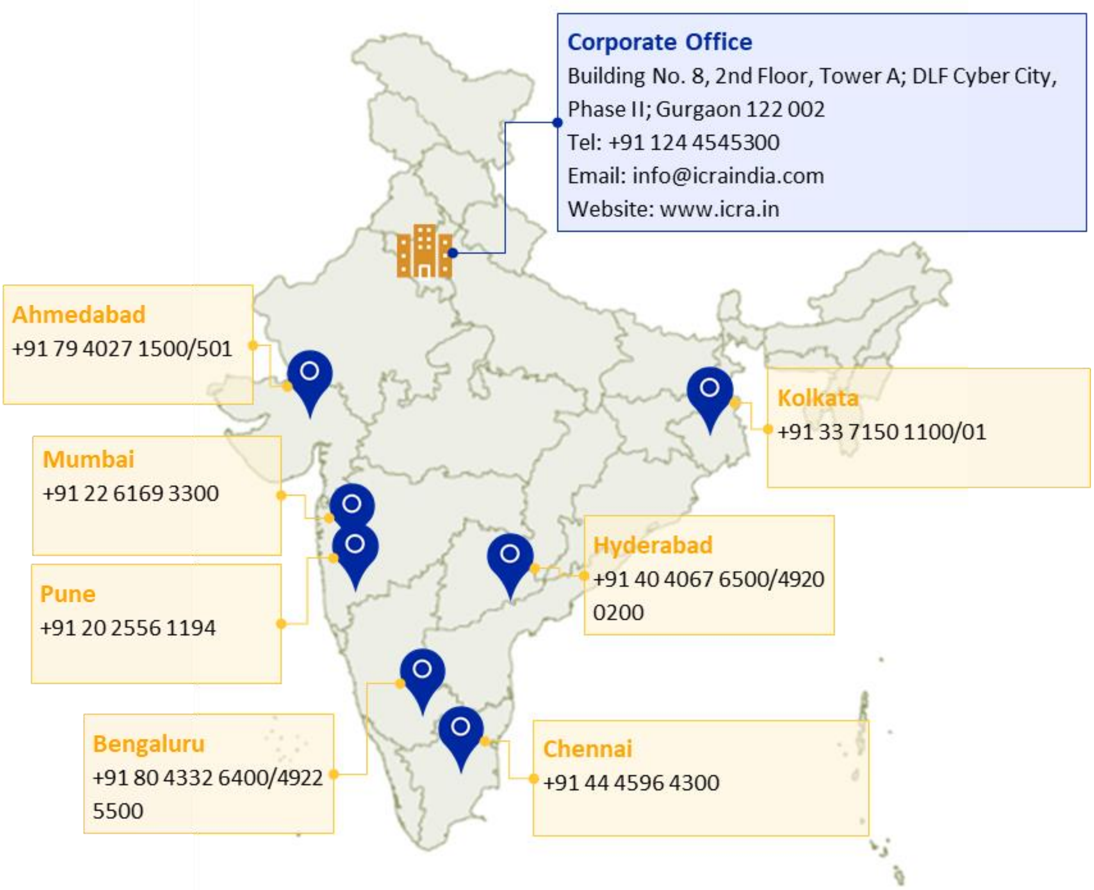
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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