December 30, 2022

Bansal Alloys & Metals Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based facilities	30.0	45.0	[ICRA]BBB+(Stable); reaffirmed/assigned
Short term Non-fund Based limits	20.2	14.2	[ICRA]A2; reaffirmed
Term Loans	8.0	8.73	[ICRA]BBB+(Stable); reaffirmed/assigned
Unallocated limits	-	0.27	[ICRA]BBB+(Stable)/ [ICRA]A2 assigned
Total	**58.2**	**68.2**	

Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Bansal Alloys & Metals Private Limited (BAMPL) and its Group companies, Bansal Iron & Steel Rolling Mills (BISRM) and Bansal Ispat Udyog (BIU), given the common management and similar lines of business.

The ratings reaffirmation considers extensive experience of the promoters and the established track record of the Bansal Group in manufacturing structural steel products. ICRA also draws comfort from the Group's presence in one of the largest steel markets in India, viz. Mandi Gobindgarh (Punjab), which provides a ready market for its raw materials as well as finished goods. The sales volume has also significantly increased in the current year owing to ramp-up of capacities. Consequently, the consolidated revenue is expected to improve by ~25% in FY2023, driven by higher volume. However, the margins are expected to moderate primarily due to a decline in steel prices. The same was demonstrated in BAMPL's performance in 7M FY2023, wherein its scale has improved, but the operating margin declined to 2.1% from 6.6% (including subsidy) in FY2022. ICRA also notes that the Group has received subsidy of Rs. ~17 crore in FY2022 under the Invest Punjab scheme. The receipt of further amount in the current year will support the margins. Till date, the company has received ~Rs. 4 crore in BAMPL. The liquidity remains comfortable with lower working capital intensity of ~10% owing to better inventory and receivable management. The CC utilisation also remains comfortable with an average utilisation of ~50% in the last one year.

The ratings are constrained by the Group's thin operating margins due to the low value-added nature of its products. ICRA also considers the intense competition in the fragmented and commoditised structural steel market, which limits the pricing flexibility and impacts margins. The ratings are constrained by the Group's exposure to cyclicality inherent in the steel industry. The ratings are further affected by the Group's exposure to forex risks, given the dependence on raw material imports. However, the Group has a policy for forex hedging to protect its margins.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group's credit metrics would continue to remain at comfortable levels, going forward, aided by steady accruals and moderate dependence on external debt.

Key rating drivers and their description

Credit strengths

Healthy profits and cash accruals in FY2022, notwithstanding the decline in realisations in recent quarters – The Group's average realisations for billet and other related products rallied sharply since FY2021 and improved by 36-37% in FY2022. Such healthy realisations led to a robust growth in the Group's operating income by ~60% in FY2022. This in turn kept the Group's OPBDITA healthy at Rs. 72.5 crore in FY2022 (including subsidy receipt) vis-à-vis Rs. 44.0 crore in FY2021. However, softening of realisations in recent months, in tandem with demand slowdown in the international market, is likely to result in a moderation in its profitability in the current fiscal at least. The same was demonstrated in BAMPL's performance in 7M FY2023, wherein the scale has improved, but the operating margin declined to 2.1% from 6.6% in FY2022.

Significant experience of management and established operational track record in steel sector – The Bansal Group is involved in the manufacturing of various structural steel products since 1971 through BISRM and subsequently through BAMPL in 1990 and BIU in 2011. Given the extensive experience of the promoters in the industry and the established operational track record, the Group has been able to maintain good relations with the stakeholders across the value chain.

Location-specific advantage – The Bansal Group's production facilities are located in one of the largest steel markets in India, viz. Mandi Gobindgarh, Punjab. This provides a ready market for raw materials as well as finished goods, thus reducing the Group's overall freight costs.

Credit challenges

Thin operating margins due to low value-added nature of products – The Group's operating margin remains thin due to the low value-added nature of products, which in turn keeps its coverage indicators under check. Nonetheless, the operating margin remains stable at ~4%, though the same was impacted in H1 FY2023 due to a decline in steel prices.

Stiff competition from highly fragmented and commoditised steel market – The steel manufacturing business is characterised by intense competition across the value chain due to low product differentiation, and consequent high fragmentation and low entry barriers. This limits the pricing flexibility of the players operating in the market, including the Bansal Group.

Susceptibility of margins to foreign exchange rate fluctuation risks – BAMPL's operations are raw material-intensive in nature with consumption of raw materials and consumables accounting for over 70% of its OI over the last few years. The ratings are constrained by its exposure to forex risks, given the significant amount (value-wise) of raw material (iron and steel scrap) imported every year. Although the procurement of imported scrap has reduced significantly in the recent past, a considerable portion is still imported. Given the thin profitability, any adverse forex fluctuation can affect its margins. However, the Group engages in forex hedging to protect its margins.

Exposure to cyclicality inherent in steel industry – The domestic steel industry is cyclical in nature, which may impact the cash flows of steel players, including the Bansal Group.

Liquidity position: Adequate

The Group's liquidity position is **adequate**. It has annual debt repayments of ~Rs. 5 crore per annum and capex plan of Rs. 35-40 crore in FY2023 and FY2024, which can be comfortably met through the Group's expected cash generation, along with minimal debt and its undrawn working capital limits of Rs. ~35 crore as of October 2022.

Rating sensitivities

Positive factors – ICRA could upgrade the long-term rating if the Group demonstrates a healthy and sustained increase in its scale and profitability. Specific credit metrics that could lead to a rating upgrade include interest coverage over 4 times on a sustained basis.

Negative factors – A significant decline in the operating income (OI) or operating profitability, or a deterioration in the liquidity position owing to a stretch in the working capital cycle could put pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry Rating Approach - Consolidation
Parent/Group Support	None
Consolidation/Standalone	The ratings are based on the consolidated financial profiles of BAMPL and its Group companies – BISRM and BIU

About the company

BAMPL manufactures mild/alloy steel billets and rolled steel products including HR coils. The company has been promoted by Mr. Prem Bansal, who along with his sons, looks after its operations. BAMPL's shares are entirely held by the promoters and their family members. The company's manufacturing facility is in Mandi Gobindgarh, Punjab with an installed capacity of 2,28,000 metric tonnes per annum (MTPA).

BISRM is a partnership firm involved in rolling steel ingots/billets into girders and channels. These are primarily used for structural and construction purposes. The firm was promoted in 1971 and its manufacturing facility is in Mandi Gobindgarh with an installed annual capacity of 39,000 MTPA.

BIU is a partnership firm, which manufactures TMT bars, girders, channels and angles. The unit has a tie-up with Kamdhenu Ispat and uses its brand name for the sale of products on payment of royalty fees. These are primarily used for structural and construction purposes. The firm was promoted in 2009 and commenced commercial operations in April 2011. Its manufacturing facility is in Mandi Gobindgarh with an installed annual capacity of 2,80,000 MTPA.

Key financial indicators

Bansal Group Consolidated*	FY2021	FY2022
Operating Income (Rs. crore)	979.7	1606.8
PAT (Rs. crore)	24.0	41.5
OPBDIT/OI (%)	4.5%	4.5%
PAT/OI (%)	2.5%	2.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.2
Total Debt/OPBDIT (times)	2.3	1.8
Interest Coverage (times)	4.9	7.0

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Consolidation of BAMPL, BISRM and BIU done by ICRA based on elimination of inter-group transactions based on public disclosures*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					December 30, 2022	September 02,2021	-	March 31,2020
1	Long term fund based facilities	Long term	45.0	-	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	-	[ICRA]BBB(Stable)
2	Short term Non-fund Based limits	Short term	14.2	-	[ICRA]A2	[ICRA]A2	-	[ICRA]A3+
3	Term Loans	Long term	8.73	19.19	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB(Stable)
4	Unallocated	Long Term/ Short term	0.27	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund based facilities	Simple
Short term Non-fund Based limits	Very Simple
Term Loans	Simple
Unallocated Limits	Not Applicable

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: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term fund based facilities**	-	-	-	45.0	[ICRA]BBB+(Stable)
NA	**Short term Non-fund Based limits**	-	-	-	14.2	[ICRA]A2
NA	**Term Loans**	FY2020	-	FY2027	8.73	[ICRA]BBB+(Stable)
NA	**Unallocated**	-	-	-	0.27	[ICRA]BBB+(Stable)/ [ICRA]A2

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Bansal Iron and Steel Rolling Mills	NA	100%
Bansal Ispat Udyog	NA	100%

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