

January 31, 2025

Bhagwati Power & Steel Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term – Fund-based – Cash credit / Working capital demand loan	50.50	50.50	[ICRA]A- (Stable); reaffirmed
Short term – Non-fund based – Letter of credit/Bank guarantee	40.00	40.00	[ICRA]A2+; reaffirmed
Short term – Non-fund based – Forward contract	1.00	1.00	[ICRA]A2+; reaffirmed
Total	91.50	91.50	

*Instrument details are provided in Annexure I

Rationale

The reaffirmation of the ratings of Bhagwati Power & Steel Limited (BPSL) continues to consider the long track record of the promoters in the steel business and the partially integrated nature of the operations that supports its overall operating margins. The expansion of the rolling mill capacity by 36,000 tonnes per annum (TPA) in FY2024 further improved the forward integration and value addition of its operations. In FY2024, while the realisation declined, the higher volume of rolled products enhanced the value addition, thus pushing up the operating margin (OPM) to 9.5% in FY2024 from 6.4% in FY2023. The overall financial risk profile continued to be healthy, supported by a conservative capital structure and comfortable debt coverage metrics.

The ratings also consider the presence of captive power plants (CPP), ensuring the availability of power at a cheap rate that positively impacts BPSL's cost structure, given the power-intensive nature of its operation. ICRA notes the proximity of BPSL's plant to the sources of the key raw materials - iron ore and coal - and the coal linkages obtained by the company, which meet ~50% of its overall coal requirement, providing raw material security to an extent.

While reaffirming the ratings, ICRA also notes an increase in the unsecured loans extended by the company to a related party (Rs. 67.4 crore as on March 31, 2024) at a low rate of interest, which is likely to negatively impact BPSL's ROCE. However, as per management estimates, no further loans are likely to be extended in the near term. In addition, the extended loans would be recovered gradually in the near to medium term.

The ratings are also constrained by the vulnerability of BPSL's revenues and cash flows to the cyclicity inherent in the steel industry and its moderate scale of operations. In the current fiscal, while the realisation remained stable for the entity, the raw material costs are also unlikely to rise, thus supporting the operating margin at a similar range of ~9%. Comfortable profitability and limited borrowings would continue to support the overall financial risk profile of the company.

The Stable outlook on [ICRA]A-rating reflects ICRA's opinion that BPSL's efficient operations, with the presence of a captive power plant, will continue to support its profitability and cash flows that are likely to remain healthy relative to the debt-servicing requirement of the entity.

Key rating drivers and their description

Credit strengths

Comfortable capital structure and debt coverage metrics - BPSL's capital structure has remained conservative over the last few years. In the current fiscal, while the entity's realisation remained stable, the raw material costs are also unlikely to rise, keeping the operating margin at a similar range of ~9%. There is no term loan outstanding as on date, which along with a minimal working capital utilisation of ~Rs 11 crore, will result in healthy debt coverage indicators, characterised by TD/OPBDITA of ~0.5 times and interest coverage of 13-14 times in FY2025. This, coupled with an improved tangible net worth due to the accretion to reserves, resulted in a decline in the company's gearing to <0.1 times as on March 31, 2025.

Presence of captive power plant ensures availability of power at a cheap rate - The company's steel melting operation is highly power-intensive. However, the power generated through BPSL's 10-MW captive power plant at a cheap rate meets a major part of its overall power requirement, which positively impacts the cost structure.

Proximity to raw material sources; coal linkages provide raw material security to some extent - BPSL procures a major portion of its iron ore and coal requirements from the mines of NMDC Limited and South Eastern Coalfields Limited (SECL), respectively, in Chhattisgarh. The plant's proximity to the raw material sources leads to low landed cost of the inputs. The company has non-coking coal linkages of ~40,000 TPA from SECL to manufacture sponge iron and generate power, enabling it to meet ~50% of the coal requirement and provide raw material security to some extent. However, the company also needs to buy additional coal from SECL through auctions and procures imported coal of higher quality, which is mixed with domestic coal for sponge iron production. BPSL's holding company, Ghanashyam Misra & Sons Private Limited (GMSPL), is involved in iron ore mining in Odisha. At present, BPSL is not procuring iron ore from GMSPL. However, the Group's presence in iron ore mining also provides raw material security to some extent.

Credit challenges

Exposed to cyclical nature inherent in the steel industry - The steel industry is characterised by its inherent cyclical nature. This is likely to keep the profitability and cash flows of all the players in the industry, including BPSL, volatile. A slowdown in the global steel demand is likely to exert pressure on the steel realisations, going forward. However, the domestic steel demand is likely to remain resilient in the near term. Nonetheless, the realisations remained sluggish in the current fiscal owing to significant pressure from steel imports.

Moderate scale of operations - The company's billet and rolling mill capacities are at a moderate level compared to other established players in the secondary steel industry. Despite an increase in the rolling capacity to 93,670 MT in FY2024 from 57,670 MT in FY2023, the overall scale of operation and revenue (of ~Rs 350 crore) remains moderate.

Sizeable financial exposure to related entities in the form of unsecured loans - BPSL has also provided an unsecured loan (around Rs. 67 crore, including accrued interest, outstanding as on March 31, 2024) to Transform Steel Pvt. Ltd. (TSPL), the holding company of Amalgam Steel & Power Limited (AS&PL). In the last fiscal, the exposure had increased to Rs. 67.41 crore from Rs. 38.72 crore to facilitate the acquisition of Topworth Steels and Power Pvt. Ltd. under the corporate insolvency resolution process. Large exposure to a group entity adversely impacts the business returns of the entity. However, no further loans are likely to be extended in the near term. In addition, the extended loans would be recovered gradually in the near to medium term.

Liquidity position: Adequate

BPSL's liquidity position is expected to remain adequate. Its cash flow from operation remained healthy in FY2024, aided by the expansion of its rolling capacities and a better cost structure. The cash flow from operations is expected to be comfortable in FY2025 and would remain firm in the medium term as well. Consequently, BPSL's healthy cash flow from operations and

undrawn working capital limits of almost Rs. 40 crore as on September 30, 2024 along with the nil debt repayment obligations and limited capital expenditure requirement will support its overall liquidity position.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company exhibits a healthy growth in its revenues and profits, while maintaining strong debt coverage metrics and adequate liquidity on a sustained basis.

Negative factors – Pressure on the ratings may emerge if there is any significant contraction in the company's scale of operations and profitability. In addition, any sizeable debt-funded acquisition or a substantial increase in funding support to related parties, adversely impacting BPSL's liquidity position and credit metrics, may trigger a downgrade. ICRA may also downgrade BPSL's ratings if its total debt/OPBDITA remains above 2 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Iron & Steel
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity

About the company

BPSL was incorporated in 2004 by the Raipur-based Kejriwal family for setting up a steel manufacturing facility in Raipur. The company commenced commercial production of sponge iron in January 2006 with a capacity of 66,000 TPA. Later, in September 2011, BPSL commissioned a captive power plant of 10 megawatt (MW) - with 6 MW based on waste heat recovery and 4 MW based on atmospheric fluidised bed combustion technology. In December 2014, the company commissioned a steel-melting capacity of 36,000 TPA, and the capacity was raised to 66,000 TPA in February 2016. In February 2017, BPSL commissioned a rolling mill with a capacity of 30,000 TPA for production of structural steel items like angles, channels, joists, etc. The billet and rolling mill capacities were enhanced to 95,400 TPA and 57,670 TPA, respectively, in March 2020. BPSL has recently installed an additional rolling mill capacity of 36,000 TPA, increasing the mill capacity to 93,670 TPA.

In FY2016, the ownership structure of BPSL underwent a change. Ghanashyam Misra & Sons Private Limited (GMSPL), promoted by the Kolkata-based Misra family, infused an equity of around Rs. 40 crore in BPSL. As a result, GMSPL became the holding company of BPSL, with a majority shareholding of 51.53%. GMSPL is involved in iron ore mining in Odisha.

Key financial indicators (audited)

LTHL Consolidated	FY2023	FY2024
Operating income	337.7	375.3
PAT	16.1	29.7
OPBDIT/OI	6.4%	9.5%
PAT/OI	4.8%	7.9%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.7	0.6
Interest coverage (times)	8.7	16.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Jan 31, 2025	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund based - Cash credit / Working capital demand loan	Long term	50.50	[ICRA]A-(Stable)	11-Dec-23	[ICRA]A-(Stable)	17-Oct-22	[ICRA]A-(Stable)	12-Jul-21	[ICRA]A-(Stable)
Non-fund-based - Letter of credit/ Bank guarantee	Short term	40.00	[ICRA]A2+	11-Dec-23	[ICRA]A2+	17-Oct-22	[ICRA]A2+	12-Jul-21	[ICRA]A2+
Non-fund based - Forward contract	Short term	1.00	[ICRA]A2+	11-Dec-23	[ICRA]A2+	17-Oct-22	[ICRA]A2+	12-Jul-21	[ICRA]A2+
Fund based - Term loans	Long term	-	-	-	-	-	-	12-Jul-21	[ICRA]A-(Stable)
Unallocated limit	Long term	-	-	-	-	-	-	12-Jul-21	[ICRA]A-(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Cash credit / Working capital demand loan	Simple
Short term – Non-fund based – Letter of credit / Bank guarantee	Very simple
Short term – Non-fund based – Forward contract	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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	Fund based - Cash credit /Working capital demand loan	NA	NA	NA	50.50	[ICRA]A- (Stable)
NA	Non-fund-based - Letter of credit/ Bank guarantee	NA	NA	NA	40.00	[ICRA]A2+
NA	Non-fund based - Forward contract	NA	NA	NA	1.00	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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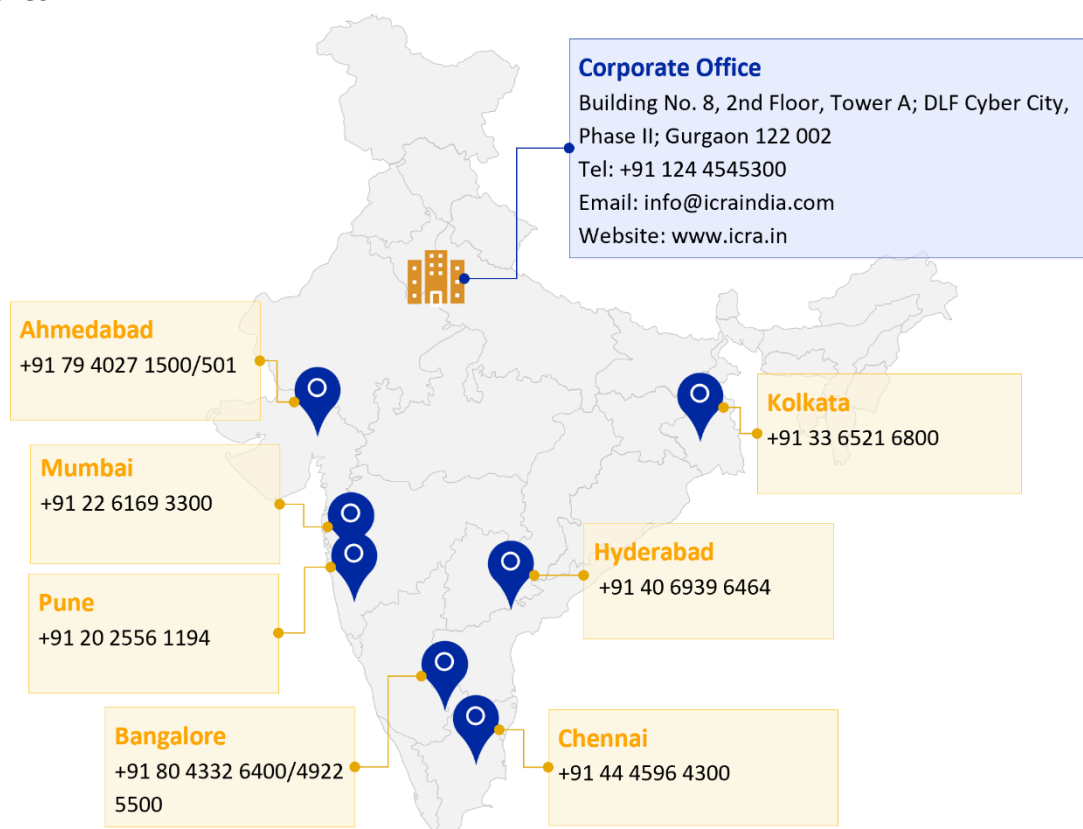


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