

August 21, 2020

Bhagwati Steel Cast Private Limited: [ICRA]BBB (Stable) assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]BBB (Stable); Assigned

*Instrument details are provided in Annexure-1

Rationale

While arriving at the rating, ICRA has taken a consolidated view of the financials of Bhagwati Steel Cast Private Limited (BSCPL) and Bhagwati Ferro Metal Private Limited (BFMPL) (referred to as the 'Group') because of their common promoters, same line of business and managerial linkages. The assigned rating factors in the long and established track record of the Group in the steel industry and its above average financial risk profile marked by healthy net worth base, large-scale operations, comfortable capital structure and above average debt coverage indicators. Additionally, the rating derives comfort from the Group's efficient working capital cycle and the cushion in the working capital limits.

The rating, however, is constrained by the highly fragmented nature of the secondary steel industry with low entry barriers, which leads to intense competition and pricing pressures. This reflects in the Group's low operating profit margins over the years, with a declining YoY trend over the past five fiscals. The rating is further constrained by the inherent cyclicity of the steel industry. ICRA also notes that the challenging operating environment in FY2021, because of the weak economic outlook and the contraction in demand for TMT bars, is expected to pose profitability and growth challenges to the Group in FY2021. Nevertheless, the revenues are expected to grow at a healthy rate in the subsequent fiscals and the profitability is expected to improve owing to the ongoing forward integration at BFMPL's Sinnar unit, which will result in better operational synergies.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the Group will continue to benefit from the extensive experience of its promoters in the steel industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and successful track record of Group in steel industry - The key promoters, Mr. Mahendra Kumar Agarwal, Mr. Amit Burakia and Mr. Anuj Agarwal, manage the Group's operations. Mr. Mahendra Kumar Agarwal, who is the founding member of the Group, has over three decades of experience in the steel industry. The Group has a demonstrated track record in the manufacturing of high quality mid steel (MS) billets and thermo mechanically treated (TMT) bars. For the period of 2016-17, BSCPL and BFMPL were awarded silver trophy by the Ministry of Steel- Government of India, for their outstanding performance in the secondary steel sector.

Above average financial risk profile - The Group's scale of operations is large, marked by a revenue of Rs. 967.73 crore in FY2020 (provisional figures); however, the same is expected to decline in FY2021 owing to the demand slowdown following the Covid-19 pandemic and the closure of BFMPL's Silvassa unit. Its net worth base stood healthy, at ~Rs. 102.00 crore, with a comfortable gearing of 0.79 times as on March 31, 2020. The Group's debt coverage indicators are above average—the interest coverage was 3.76 times, DSCR was 3.94 times, NCA/Debt was 17% and TD/OPBDITA was 4.81 times in FY2020.

ICRA also notes that the availment of bank term loan of Rs. 40.00 crore for the ongoing forward integration project at BFMP's Sinner unit may lead to some moderation of the credit metrics in the interim period, till commensurate returns from the same start flowing.

Efficient working capital cycle - The Group's working capital cycle is efficient as reflected by low receivables period and inventory holding requirement. Subsequently, its NWC/OI stood moderate at 11% in FY2020.

Credit challenges

Decline in operating profitability - The Group's operating profit margin has declined consistently over the last five fiscals to 1.74% in FY2020 from 4.00% in FY2016. Its operating profitability remains low because of the raw material-intensive operations (raw materials and consumables accounting for ~80-85% of the operating income (OI) during the last five fiscals). However, the Group's net profitability has witnessed an uptrend over the last five fiscals due to lower interest expenses owing to the low dependence on bank borrowings. Nevertheless, the ongoing forward integration project at BFMP's Sinner unit, which will be fully operational from Q4FY2021, will result in cost savings and is expected to improve the operating profit margin.

Intense competition from highly fragmented and commoditised steel market - The ingot/billet and TMT bars manufacturing businesses are characterised by intense competition across the value chain because of low product differentiation, which limits the pricing flexibility of the players.

Exposure to cyclicity inherent in steel industry - The domestic steel industry is cyclical in nature, which impacts the cash flows of the steel players. The Group's operations are vulnerable to any adverse change in demand-supply dynamics in the construction/infrastructure sector.

Liquidity position: Adequate

The Group's liquidity position is **adequate**, marked by moderate working capital limits utilisation of ~45% (on a consolidated level) against the sanctioned limit from January 2019 to May 2020. The scheduled annual debt repayments will increase to ~Rs. 4-8.00 crore over FY2021-2022 due to the ongoing debt-funded capex; however, the expected realisation of ~Rs. 12-13.00 crore in FY2021 from the sales proceeds of the Silvassa unit, will support the liquidity position in the near term. The Group is expected to generate sufficient annual cash accruals in the range of ~Rs. 15.40-17.20 crore FY2021-2022.

Rating sensitivities

Positive Triggers

- Substantial growth in revenue, with improvement in profit levels and prudent working capital cycle
- Total Debt/OPBDITA of 3 times or below on a sustained basis

Negative Triggers

- Any significant delay in the commissioning of the new plant, lower-than-expected ramp up of scale or operating profitability
- Any further large debt-funded capex or stretch in working capital cycle adversely affecting liquidity and key credit metrics

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of BSCPL and BFMPL because they have common promoters, same line of business and managerial linkages between them.

About the company

Incorporated in 1984, Bhagwati Steel Cast Private Limited (BSCPL) manufactures MS billets and TMT bars. The company's manufacturing facility in Sinnar, Nashik, has an annual installed capacity to manufacture 1,00,000 MT of MS billets and 1,08,000 MT of TMT bars.

Bhagwati Ferro Metal Private Limited (BFMPL) is an associate concern of BSCPL held by common promoters. BFMPL has two units, one in Sinnar, Nashik (4 kms. from BSCPL) and the other in Silvassa. The Sinnar unit manufactures MS billets and the Silvassa unit produces TMT bars. The annual installed capacity of the Sinnar unit is 1,50,000 MT (MS billets) and that of the Silvassa unit is 96,000 MT (TMT bars).

The Group shut down BFMPL's Silvassa unit in April 2020 and is in the process of selling it off. The Group is currently undertaking debt-funded capex for the forward integration of BFMPL's Sinnar unit to manufacture TMT bars, which will result in better operational synergies owing to the captive utilisation of MS billets to manufacture TMT bars. The total capital cost (excluding working capital margin) of the project is estimated at ~Rs. 55.00 crore, which will be funded by bank term loan of Rs. 40.00 crore and unsecured loan from promoters/internal accruals of Rs. 15.00 crore. The plant will have an annual installed capacity to manufacture 1,32,000 MT of TMT bars, and its commercial operations are expected to commence in January 2021.

Key financial indicators

	Standalone		Consolidated	
	FY2019	FY2020(P)	FY2019	FY2020(P)
Operating Income (Rs. crore)	462.29	369.72	1,225.56	967.73
PAT (Rs. crore)	2.45	2.74	5.11	5.42
OPBDIT/ OI (%)	1.81%	1.29%	1.89%	1.74%
PAT/OI (%)	0.53%	0.74%	0.42%	0.56%
Total Outside Liabilities/Tangible Net Worth (times)	1.73	1.23	1.13	1.24
Total Debt/ OPBDITA (times)	3.41	5.10	2.61	4.81
Interest Coverage (times)	3.57	2.99	3.24	3.76

P - Provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					21-Aug-2020			
1	Issuer Rating	Long Term	-	-	[ICRA]BBB (Stable)	NA	NA	NA

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]BBB (Stable)

Source: BSCPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Bhagwati Ferro Metal Private Limited	-	Full Consolidation

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