

Press Release

Shri Bajrang Power & Ispat Limited

December 23, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs Crore)	Rating Assigned
1.	Long Term Facility – Fund Based – Cash Credit	325.00	IVR BBB+ / Stable Outlook (IVR Triple B Plus with Stable Outlook)
2.	Long Term Debt – Fund Based – Term Loan	372.73	IVR BBB+ / Stable Outlook (IVR Triple B Plus with Stable Outlook)
3.	Long Term/Short Term Facility – Non Fund Based – LC/BG	160.00	IVR BBB+ / Stable Outlook (IVR Triple B Plus with Stable Outlook) / IVR A2 (IVR A Two)
4.	Long Term/Short Term – Proposed Facility	42.27	IVR BBB+ / Stable Outlook (IVR Triple B Plus with Stable Outlook) / IVR A2 (IVR A Two)
Total		900.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of Shri Bajrang Power & Ispat Limited (SBPIL) derives comfort from its Experienced promoters & eminent board, healthy growth in operations, comfortable profitability margins, comfortable gearing and debt coverage indicators, integrated nature of operations and diversified product portfolio and efficient working capital management. However, the rating strengths are partially offset by volatility in raw material prices, substantial investment in group companies, exposure to foreign exchange fluctuations & high competition and cyclical nature in the steel industry.

Key Rating Sensitivities

Upward revision factors:

- Significant improvement in debt coverage indicators and maintaining profitability margins could lead to a positive rating action

Downward revision factors:

- Any further exposure in group entities and elongation in operating cycle could call for a negative rating action

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters and eminent board

Shri Bajrang Power and Ispat Limited (SBPIL) was promoted by the Goel family in 2002. SBPIL is the flagship company of Raipur based Shri Bajrang group. The group has been in the iron and steel industry since 1991. Promoters have an extensive industry experience of around three decades. The company's Board of Directors comprises ten members (four representing promoter's family, one whole time director and five independent directors). Mr. Suresh Goel is the Chairman of the Board and Mr. Narendra Goel (brother of Mr. Suresh Goel) is the Managing Director of the company. The independent directors of the company are highly qualified, experienced and accomplished professionals, adding credence in the governance of the company.

Healthy growth in operation

The company witnessed a healthy growth in operation, growing at a CAGR of 36.29% over the last three years ended FY19. The total operating income of the company increased by 45% from Rs.1785.52 crore in FY18 to Rs.2594.43 crore in FY19 due to increase in scale of operation, on the back of higher capacity utilisation and increased demand for steel.

Comfortable profitability margins

The profitability margins of the company have largely remained comfortable over the last three years. The EBITDA margin has been in the range of 15%-17% in the last three years. However, the PBT margin of the company has improved year-on-year on account of control over interest costs despite increasing scale of operation. Consequently, the PAT margin also improved from

4.33% in FY18 to 8.91% in FY19 (partly supported by lesser provision for deferred tax in FY19).

Comfortable gearing and debt coverage indicators

The overall gearing ratio of the company was comfortable at 0.89x as on March 31, 2019. The long term debt to equity ratio was also comfortable at 0.53x as on March 31, 2019. The interest coverage ratio stood at 4.38x in FY19, which has significantly improved from 2.80x in FY18. Total debt to GCA was comfortable at 2.74x in FY19. Other debt coverage indicators have also been comfortable as on the last three account closing days.

Integrated nature of operations and diversified product portfolio

SBPIL is an integrated manufacturer of steel products with a diversified portfolio of long steel products comprising TMT bars, HB wires, wire rods, sponge iron, billets, ferro alloy, MS rounds and iron ore pellets. Products of the company are sold under brand name of “Goel” and find use primarily in infrastructure and construction segments. The company started iron ore mining in 2015 to meet its raw material requirements. Backward integration and fully captive power generation capabilities have resulted in the company minimizing its operating costs.

Efficient working capital management

The working capital cycle of the company is comfortable, in the range of 15-25 days during the last three years. The inventory holding period has improved from 77 days as on March 31, 2017 to 53 days as on March 31, 2019. The average debtor’s collection days and average creditor’s days stood at 11 days and 42 days respectively as on March 31, 2019 indicating efficient management of working capital.

Key Rating Weaknesses

Volatility in raw material prices

The major raw materials required by the company are iron ore and coal. SBPIL owns an iron ore mine in Chhattisgarh (though some iron ore requirement is fulfilled externally). The company has tie-up with South Eastern Coal Field Limited for fulfilling its coal requirements. Historically, the cost of these raw materials and steel products have been volatile in nature and hence, profitability margins of the company are susceptible to fluctuation in raw material prices

and/or finished products. However, the company has been able to pass on the effect of volatility to the end customers to a certain extent.

Substantial investment in group companies

The company has made substantial investments of Rs.237.49 crore (comprising ~28.71% of the net worth of the company as on March 31, 2019) in its various group entities as on March 31, 2019. SBPIL converted short term loans and advances of ~Rs.227 crore extended to a group entity, IA Hydro Energy Private Limited, into equity in FY18.

Exposure to foreign exchange fluctuations

As the company imports ~30%-40% of its raw material requirements and exports account for a miniscule proportion of the total revenue, the company is exposed to foreign currency fluctuation risk. The company has indicated that it generally hedges its entire forex exposure. The company has also indicated that the open position as on latest date was nil. In the light of depreciation of rupee over the last five years (~Rs.60 per dollar in June 2014 to ~Rs.71 per dollar in September 2019) there appears to be risk in the foreseeable future. However, this risk is mitigated by the company by way of 100% hedging.

High competition and cyclicity in the steel industry

The Shri Bajrang group operates in Chhattisgarh which is well known for steel & ancillary segment. The company faces stiff competition from both established players in the region as well as from the unorganised sector players due to low level of product differentiation. Also, the steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downturn in the prices. However, the current outlook for the steel industry appears to be good with robust domestic demand.

Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

The liquidity profile of the company is adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate cash balance of Rs.18.90 crore as on March 31, 2019. The average utilization of working capital limits remained moderate (~83%) during the 12 months ended Oct 31, 2019. Although the future capex requirements of the company are significant (expected to be funded using debt of ~Rs.100 crore and internal accruals of Rs.50 crore), the company is generating sufficient GCA to meet their contribution for the same.

About the Company

Shri Bajrang Power and Ispat Limited (SBPIL) is a part of the Raipur based Shri Bajrang group established by the Goel family. SBPIL, incorporated in 2002, is the flagship company of the group. The company primarily manufactures long mild steel products like TMT bars, hard bright wires, wire rods, sponge iron, pellets, billets, ferro alloys etc. Products of the company are sold under brand name of “Goel” and find use primarily in infrastructure and construction segments. At present, the company’s products are primarily used domestically with minimal exports. Iron ore pellets manufactured by the company are exported to countries like Egypt, Kenya, Sri Lanka and few South East Asian and Middle East Asian countries. The manufacturing facilities of SBPIL is strategically located in central India, near Raipur. The company has three manufacturing facilities at Borjhara, Gondwara and Tilda, all situated in close proximity with each other. SBPIL has the leverage of selling its products across different geographies with easy connectivity via road and rail, taking advantage of having its own state of the art railway sliding within the company’s sprawling premises at Tilda unit. The manufacturing facilities of the company are ISO 9001:2015, ISO 14001:2004 and OHSAS 18001:2007 certified. Operations of the company are fully integrated. The company started iron ore mining in 2015 to meet its raw material requirement of iron ore. The company meets all of its power requirements from captive sources. SBPIL has an installed capacity of 58 MW generated from bio-mass, thermal coal and waste heat recovery.

Financials:

	31-03-2018	31-03-2019
For the year ended* / As On	(Audited)	(Audited)
Total Operating Income	1785.52	2594.43
EBITDA	280.24	460.83

PAT	77.60	231.95
Total Debt	741.16	734.83
Tangible Net-worth	595.30	827.09
EBITDA Margin (%)	15.70	17.76
PAT Margin (%)	4.33	8.91
Overall Gearing Ratio (x)	1.25	0.89

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. cr.)	Rating	Date(s) & Rating(s) assigned in 18-19	Date(s) & Rating(s) assigned in 17-18	Date(s) & Rating(s) assigned in 16-17
1.	Long Term Facility – Fund Based – Cash Credit	Long Term	325.00	IVR BBB+/Stable Outlook	--	--	--
2.	Long Term Debt – Fund Based – Term Loan	Long Term	372.73	IVR BBB+/Stable Outlook	--	--	--
3.	Short Term/Long Term Facility – Non Fund Based – LC/BG	Long/Short Term	160.00	IVR BBB+/Stable Outlook/ IVR A2	--	--	--
	Long Term/Short Term – Proposed Facility	Long/Short Term	42.27	IVR BBB+/Stable Outlook / IVR A2			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Facility – Fund Based – Cash Credit	NA	NA	NA	325.00	IVR BBB+/ Stable Outlook
Long Term Debt – Fund Based – Term Loan	NA	NA	2030	372.73	I IVR BBB+/ Stable Outlook/
Long Term/Short Term Facility – Non Fund Based – LC/BG	NA	NA	NA	160.00	IVR BBB+/ Stable Outlook/ IVR A2
Long Term/Short Term – Proposed Facility	NA	NA	NA	42.27	IVR BBB+/ Stable Outlook/ IVR A2