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Bhagyalaxmi Rolling Mill Private Limited

March 12, 2024

Ratings

Instrument/Facility	Amount (Rs Cr.)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	327.17 (reduced from 666.75)	IVR A-/ Stable (IVR Single A Minus with Stable Outlook)	Reaffirmed	Simple
Long Term Bank Facilities	359.58	IVR A-/ Stable (IVR Single A Minus with Stable Outlook)	Assigned	Simple
Long Term/ Short Term Bank Facilities	82.50 (reduced from 130.00)	IVR A-/ Stable/ IVR A2+ (IVR Single A Minus with Stable Outlook and IVR A Two Plus)	Reaffirmed	Simple
Long Term/ Short Term Bank Facilities	27.50	IVR A-/ Stable/ IVR A2+ (IVR Single A Minus with Stable Outlook and IVR A Two Plus)	Assigned	Simple
Total	796.75 (Seven Hundred and Ninety Six Crore and Seventy Five Lakhs Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Bhagyalaxmi Rolling Mill Private Limited (BRMPL) derives comfort from the experienced promoters and competent management team, comfortable capital structure with satisfactory debt coverage metrics in FY23, satisfactory liquidity position and operating cycle in FY23, and locational advantage associated with the Company's operation. These rating strengths are partially offset by the subdued growth in total operating income and profits in FY23 and dip in revenue and operating profits in the current fiscal, volatility in input and output prices and hindrances posed by Government regulations,



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negative impact on the capital structure and debt coverage indicators in the near term due to capex connected with the expansion project, and the Company's presence in highly fragmented and competitive industry.

Key Rating Sensitivities:

Upward Factors

- Sustained improvement in scale of operations, profitability and cash accruals.
- Sustained improvement in capital structure and debt coverage indicators.

Downward Factors

- Steady deterioration in working capital cycle.
- An economic downturn, affecting the steel industry in general and the Company.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters and competent management team**

Bhagyalaxmi Rolling Mill Private Limited (BRMPL) was founded by Mr. Vishal K Agarwal, Mr. Nitin Kabra, and Mr. Shivshankar Khichade in 2004 and each of them on an average have 15-20 years of experience in the steel industry. The promoters are ably assisted by the COO, Mr. Praveen Goyal, who has been associated with the Company since its inception. The key departments of Sales, Purchase, and Finance are also ably handled by competent professionals who have been with the Company for many years. The experience of the promoters and the competency of the management team have helped the Company to navigate its path through various ups and downs.

- **Comfortable capital structure with satisfactory debt coverage metrics in FY23**

The total debt of the Company increased from INR255.99 crore on March 31, 2022 to INR271.44 crore on March 31, 2023 – that was primarily attributable to increase in long term debt, which increased from INR121.85 crore on March 31, 2022 to INR155.87 crore on March 31, 2023 while the short term debt decreased from INR134.14 crore on March 31, 2022 to INR115.57 crore on March 31, 2023. The long term debt equity ratio considering quasi equity deteriorated from 0.46x on March 31, 2022 to 0.47x on March 31, 2023. However, the overall gearing ratio considering quasi equity improved from 0.96x on March 31, 2022 to 0.83x on



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March 31, 2023. The interest coverage ratio including bank charges marginally improved, as a consequence of improved profits, changing from 3.98x in FY22 to 4.11x in FY23. The DSCR deteriorated from 2.19x in FY22 to 1.87x in FY23 while the TOL/TNW considering quasi equity improved from 1.25x on March 31, 2022 to 1.21x on March 31, 2023.

- **Satisfactory liquidity position and operating cycle in FY23**

The current ratio improved from 1.36x on March 31, 2022 to 1.39x on March 31, 2023. The quick ratio improved from 0.81x on March 31, 2022 to 0.99x on March 31, 2023. The Company's collection period deteriorated slightly from 23 days in FY22 to 27 days in FY23. The inventory days improved from 29 days in FY22 to 24 days in FY23 while the creditor days was maintained at 4 days in FY22 and FY23. These led to the change in operating cycle from 48 days in FY22 to 47 days in FY23. The average utilisation of fund based working capital limits was low at around 59% between January 2023 and December 2023.

- **Locational advantage associated with the Company's operation**

The location of Jalna is such that the next nearest manufacturing hub of TMT from it is 400 kms to 600 kms away. Hence, Jalna covers Maharashtra and adjoining areas of Gujarat, Madhya Pradesh, and Telangana. Currently, due to heavy infrastructure activity taking place in Maharashtra, majority of the TMT bars are sold in that state. Further, the recently inaugurated Mumbai Nagpur Samruddhi Mahamarg connects more than 11 districts of Maharashtra and it is just 11km away from BRMPL's plant, thus aiding BRMPL's connectivity with various distributors spread across Maharashtra immensely.

Key Rating Weaknesses

- **Subdued growth in total operating income and profits in FY23 and dip in revenue and operating profits in the current fiscal**

FY22 was a good year for the Company as the operating income of the Company increased by ~57% YoY between FY21 and FY22 (TOI was INR1098.26 crore in FY21 and INR1720.37 crore in FY22). That was primarily because of increased demand of all steel products coupled with substantial increase in their realisations. The EBITDA in absolute term, however, increased by ~20% from INR93.02 crore in FY21 to INR111.43 crore in FY22, primarily



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because of raw material cost pressures. The situation changed in FY23 and there was only a slight increase in TOI and EBITDA - The operating income of the Company increased marginally by ~2% YoY between FY22 and FY23 (TOI was INR1718.08 crore in FY22 and INR1756.34 crore in FY23). That was primarily because of reduced demand of all steel products barring Miss Rolls while there was a substantial increase in the realisations of all steel products. The EBITDA in absolute term, increased at more or less the same rate at 2.44% YoY from INR109.17 crore in FY22 to INR111.83 crore in FY23. Owing to similar level of depreciation and interest cost in FY22 and FY23, and slightly higher effective tax rate, the PAT improved by 2.56% YoY from INR37.55 crore in FY22 to INR38.51 crore in FY23. As a consequence of slightly higher PAT, the gross cash accruals (GCA) of the Company improved from INR69.99 crore in FY22 to INR70.99 crore in FY23. While the EBITDA margin increased slightly from 6.35% in FY22 to 6.37% in FY23, the PAT margin improved from 2.18% in FY22 to 2.19% in FY23. TOI for 9MFY24 dropped by 13.60% YoY compared to 9MFY23 because of around 2% YoY drop in volume of steel products sold while realisation of various steel products dropped in the range of 8.4%-14.4% in 9MFY24 compared to 9MFY23 (9MFY23 TOI: INR 1320.07 crore, 9MFY24 TOI: INR 1140.58 crore). The drop in volume was because of planned plant shutdowns. Because of higher rate of fall in raw material prices, EBITDA dipped by a lower percentage of 5.71% on a YoY basis, which got reflected in the high EBITDA margin in 9MFY24 compared to 9MFY23. (9MFY23 EBITDA and EBITDA margin INR86.70 crore, and 6.57% respectively; 9MFY24 EBITDA and EBITDA margin INR81.75 crore, and 7.17% respectively).

- **Volatility in input and output prices and hindrances posed by Government regulations**

The prices of key raw materials of BRMPL are very volatile in nature and so are the prices of its end product, i.e., TMT Bars. The disproportionate changes in the raw material prices compared to the finished goods prices over the last few decades plus the lag effect of passing on increased prices of raw materials to finished goods lead to the spreads or operating margins becoming negative in downturns. Further, demand weakness is also witnessed in downturns, affecting the operating margin negatively again because of lower fixed cost absorption. Keeping these things aside, adverse changes in Government regulations from



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time to time, particularly with regard to export of steel and import of raw materials may impact the sector and the Company negatively going forward.

- **Capex connected with the expansion project will negatively impact the capital structure and debt coverage indicators in the near term**

BRMPL has planned a capex of INR452 crore in FY23 and FY24 which will be partly funded by debt to the tune of INR318 crore. While the medium to long term prospects are bright due to this capex as annual installed capacity of TMT Bars would increase from the current level of 3,84,000MT to 5,86,000MT and there is ample room in the market to absorb BRMPL's increased production, in the near term the capital structure and debt coverage indicators would get negatively impacted – Overall Gearing considering quasi equity is expected to increase from 0.90x on March 31, 2023 to 1.40x on March 31, 2024 before expected moderation to 1.09x on March 31, 2025 and 0.78x on March 31, 2026. Total Debt to GCA is expected to increase from 3.99x on March 31, 2023 to 6.64x on March 31, 2024 before expected moderation to 3.79x on March 31, 2025 and 2.87x on March 31, 2026. TOL/TNW considering quasi equity is also expected to increase from 1.21x on March 31, 2023 to 1.67x on March 31, 2024 before expected moderation to 1.39x on March 31, 2025 and 1.05x on March 31, 2026. The DSCR is, however, expected to remain comfortably between 1.66x and 1.94x between FY24 and FY26.

- **Presence in highly fragmented and competitive industry**

The steel industry is essentially commoditised and the industry is highly fragmented with the presence of innumerable players across India, which gives rise to intense competition. Hence, profit margins in this industry are rangebound and so are the return ratios.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

Liquidity – Adequate

The Company has a comfortable current ratio of 1.39x as on March 31, 2023. Current ratio is remaining between 1.34x and 1.59x during March 31, 2024 and March 31, 2026. The GCAs



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of each of the years between FY24 and FY26 comfortably cover the debt repayments due in the respective years. The Operating Cycle was comfortable at 47 days in FY23, it is expected to remain within 38-51 days in FY24-26. The average utilisation of fund based working capital limits was low at around 59% between January 2023 and December 2023. Capex of INR 290 crore is planned for FY24 and it will be funded primarily through debt to the tune of INR 223 crore. Quasi Equity on the balance sheet was INR 63.50 on March 31, 2023 and this amount shall remain on the balance sheet at least till FY26. The promoters are resourceful enough to bring in further money from their individual net worth, if necessary.

About the Company

BRMPL is primarily into the manufacturing of TMT Bars, which it classifies as QST Bars, of various dimensions. TMT Bars are marketed under the brand 'Polaad', which literally means 'strongest' in Marathi. Besides selling TMT Bars, the Company also sells excess billets in the market from time to time. Vast majority of the sales happen in Maharashtra and the end customer is generally an individual house builder in a rural area/ small town of Maharashtra. The key raw materials, i.e., scrap, and sponge iron, are purchased from various suppliers in the market, and the end product – TMT Bars are sold through distributors across Maharashtra, many of whom are the exclusive distributors of Polaad TMT Bars.

Financials (Standalone):

For the year ended* / As on	INR Crores	
	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	1718.08	1756.34
EBITDA	109.17	111.83
PAT	37.55	38.51
Total Debt	255.99	271.44
Tangible Net worth (including quasi equity)	267.06	328.53
EBIDTA Margin (%)	6.35	6.37
PAT Margin (%)	2.18	2.19
Overall Gearing ratio (including quasi equity) (X)	0.96	0.83

**Classification as per infomerics' standards*



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Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Mar 21, 2023)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loans	Long Term	323.30	IVR A-/ Stable	IVR A-/ Stable	-	-
2.	Cash Credit Limits	Long Term	250.00	IVR A-/ Stable	IVR A-/ Stable	-	-
3.	Proposed Cash Credit	Long Term	113.45	IVR A-/ Stable	IVR A-/ Stable	-	-
4.	Proposed Term Loans	Long Term	-	-	IVR A-/ Stable	-	-
5.	Letter of Credit	Long Term/ Short Term	30.00	IVR A-/ Stable/ IVR A2+	IVR A-/ Stable/ IVR A2+	-	-
6.	Bank Guarantees	Long Term/ Short Term	80.00	IVR A-/ Stable/ IVR A2+	IVR A-/ Stable/ IVR A2+	-	-
6.	Proposed Bank Guarantees	Long Term/ Short Term	-	-	IVR A-/ Stable/ IVR A2+	-	-

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About Infomerics Ratings:



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Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs Cr.)	Rating Assigned/ Outlook
Term Loan 1	-	-	Sep 2027	11.18	IVR A-/ Stable
Term Loan 2	-	-	Nov 2031	67.16	IVR A-/ Stable
Term Loan 3	-	-	Jul 2027	19.32	IVR A-/ Stable
Term Loan 4	-	-	Nov 2031	25.00	IVR A-/ Stable
Term Loan 5	-	-	Jun 2027	13.85	IVR A-/ Stable
Term Loan 6	-	-	Dec 2031	27.22	IVR A-/ Stable
Term Loan 7	-	-	Jul 2027	16.99	IVR A-/ Stable
Term Loan 8	-	-	Jul 2027	12.40	IVR A-/ Stable
Term Loan 9	-	-	Jul 2027	23.43	IVR A-/ Stable
Term Loan 10*	-	-	Feb 2032	42.75	IVR A-/ Stable
Term Loan 11	-	-	Aug 2031	60.00	IVR A-/ Stable
Term Loan 12	-	-	Jun 2031	4.00	IVR A-/ Stable
Cash Credit 1	-	-	-	65.00	IVR A-/ Stable
Cash Credit 2	-	-	-	40.00	IVR A-/ Stable
Cash Credit 3	-	-	-	33.00	IVR A-/ Stable
Cash Credit 4	-	-	-	50.00	IVR A-/ Stable
Cash Credit 5	-	-	-	40.00	IVR A-/ Stable
Cash Credit 6	-	-	-	22.00	IVR A-/ Stable



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Proposed Cash Credit	-	-	-	113.45	IVR A-/ Stable
Letter of Credit	-	-	-	30.00	IVR A-/ Stable/ IVR A2+
Bank Guarantee 1	-	-	-	11.50	IVR A-/ Stable/ IVR A2+
Bank Guarantee 2	-	-	-	15.50	IVR A-/ Stable/ IVR A2+
Bank Guarantee 3	-	-	-	41.00	IVR A-/ Stable/ IVR A2+
Bank Guarantee 4	-	-	-	12.00	IVR A-/ Stable/ IVR A2+

**Capex LC of INR100 crore is a sublimit. The sanctioned amount of the term loan was INR100 crore.*

Annexure 2: List of companies considered for consolidated analysis: NA

Annexure 3: Facility wise lender details: <https://www.infomerics.com/admin/prfiles/Len-BhagyalaxmiRolling-12032024.pdf>

Annexure 4: Detailed explanation of covenants of the rated facilities: Not Applicable.

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.