

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Bravo Sponge Iron Private Limited

March 25, 2019

Rating

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Bank Facilities – Long Term	174.50 (including proposed limits of Rs.35 crore)	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)	Assigned
Bank Facilities – Short Term	40.50 (including proposed limits of Rs.12.00 crore)	IVR A3+ (IVR A Three Plus)	Assigned
Total	215.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Bravo Sponge Iron Private Limited (BSIPL) derive comfort from its experienced promoters, strategic location of the plant, improving capacity utilization, growth in scale of operations, adequate backward and forward integration. However, the rating is constrained by sensitivity to deterioration in debt protection parameters, on account of capex, though likely to be comfortable, highly competitive & fragmented nature of industry, cyclical nature in Steel Industry. Capital Structure, profitability and global demand and supply situation & prices of steel products are the key rating sensitivities.

List of Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters

The current promoter of BSIPL is Mr. Deepak Kumar Agarwal, the promoter of Shakambari Ispat & Power Ltd., an established TMT Bar, Wire rod and Billet manufacturing company, based out of Kolkata. He has been in the business of iron and steel for more than 25 years. Mr. Agarwal looks after the day-to-day affairs of the company.

Strategic location of the plant

BSIPL's manufacturing facility is located in Purulia, West Bengal, which is in close proximity to various steel plants and various producers/dealers of its main raw materials (i.e. iron ore/coal). Further, the plant is well connected through road and rail transport which facilitates

Infomerics Valuation And Rating Pvt. Ltd.

easy transportation of raw materials and finished goods. Proximity of the plant to source of raw material and end market for its sponge iron results in containment of transportation cost.

Improving capacity utilisation

Capacity utilization (CU) for manufacturing of sponge iron, gradually paced up in FY 18 and similar trends was exhibited in 9MFY19. The capacity utilization improved from 79% in FY 17 to 86% in FY18 and 100% in 9MFY19 due to improvement in the steel industry scenario and also on account of GST implementation.

Growth in scale of operation

BSIPL registered a CAGR of about 81% during FY16-18 with a y-o-y growth of ~73% in its total operating income in FY18 over FY17. The growth was high due to booming steel industry scenario, and also due to revival of the erstwhile sick plant into a working plant. However, BSIPL's EBIDTA margin remained range bound. Moreover, with improvement in the steel industry, the demand of sponge iron also improved.

Adequate backward and forward integration

BSIPL has set up a billet unit as well as a captive power plant. The power cost will be curtailed due to the captive power plant and the sponge iron produced will be utilised to make billets from FY 19 onwards, resulting in higher margins.

Key Weaknesses

Sensitive to deterioration in debt protection parameters, on account of capex, though likely to be comfortable

Debt protection parameters like interest coverage, long term debt to GCA and overall gearing, deteriorated in FY18 due to implementation of new units thereby increasing total debt and repayment obligations. However the same is expected to stabilize over period of time. Overall, the parameters will continue to be comfortable. Further, the DSCR is likely to deteriorate due to ballooning of repayments.

Infomerics Valuation And Rating Pvt. Ltd.

Highly competitive & fragmented nature of industry

The spectrum of the steel industry in which the company operates is highly fragmented and competitive due to presence of numerous players in India owing to relatively low entry barriers. Hence, the players in the industry do not have pricing power and are exposed to the prices fixed by the industry giants.

Cyclical in Steel Industry

The steel industry is highly cyclical. Steel prices fluctuate based on macro-economic factors, including, amongst others, consumer confidence, employment rates, interest rates and inflation rates, general levels of infrastructure activities in the region of sale, etc. Adverse volatility in steel prices will have an adverse effect on company's performance in view of BSIPL's direct linkage to the fortunes of Steel industry. However, the outlook for the steel industry in the short to medium term appears to be good as the steel prices had hardened in the recent past, coupled with robust demand in the domestic market.

Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

BSIPL's liquidity profile seems satisfactory in the short run; however, with ballooning of term loan installments, the cash DSCR is expected to be moderate in the short run. The company is performing satisfactorily, and expects higher cash accruals in the projected period to meet its debt obligations. Further, the company has an unutilized credit line of about Rs.25 crore. This, along with resourcefulness, of the promoter do not indicate to envisage any difficulty in meeting near term debt obligation even in case of stress in achieving projected level of cash accruals.

About the Company

Bravo Sponge Iron Private Limited (BSIPL) (formerly, Bhalotia Bravo Sponge Iron Pvt Ltd), incorporated in 1997, manufactures sponge iron and billet. The company was taken over by the Bhalotia group in 2002. Initially, the company had two kilns (combined capacity of 60,000 tonne per annum). In June 2015, the unit was shut down by Bhalotia group and was taken over by Mr

Infomerics Valuation And Rating Pvt. Ltd.

Deepak Agarwal (promoter of Shakambari Ispat & Power Limited) at a consideration of Rs.25 crore (on distress sale basis). Currently, BSIPL is engaged in manufacturing of sponge iron with installed capacity of 1,18,500 MTPA of sponge iron (of which 30,000 MTPA was added in June 2017) at its plant located at Rukni, Purulia in West Bengal.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	100.46	174.19
EBITDA	8.82	13.21
PAT	2.94	3.02
Total Debt	54.17	130.26
Tangible Net worth	79.59	113.99
EBITDA Margin (%)	8.78	7.58
PAT Margin (%)	2.93	1.73
Overall Gearing Ratio (x)	0.68	1.14

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Available

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits – Cash Credit (including proposed limit of Rs.35.00 crore)	Long Term	69.00	IVR BBB/Stable	-	-	-
2.	Long Term Fund Based Limits – Term Loan	Long Term	105.50	IVR BBB/Stable			
3.	Short Term Non Fund Based Limits –Letter of Credit (including proposed limit of Rs.10.50 crore)	Short Term	38.00	IVR A3+	-	-	-

Infomerics Valuation And Rating Pvt. Ltd.

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
4.	Short Term Non Fund Based Limits –Bank Guarantee*	Short Term	2.00	IVR A3+	-	-	-
5.	Short Term Non Fund Based Limits –Forward Contract (including proposed limit of Rs.1.50 crore)	Short Term	2.50	IVR A3+	-	-	-

*Sublimit of LC

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.

Name and Contact Details of the Rating Analyst:

Name: Ms. Aakanksha N. Banthia

Tel: (033) 46022266

Email: abanthia@infomerics.com

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.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Infomerics Valuation And Rating Pvt. Ltd.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit (including proposed limit of Rs.35.00 crore)	-	-	-	69.00	IVR BBB/Stable
Term Loan	-	10.75%	Quarterly instalments ending FY 27	105.50	IVR BBB/Stable
Letter of Credit	-	-	-	38.00	IVR A3+
Bank Guarantee*	-	-	-	2.00	IVR A3+
Forward Contract (including proposed limit of Rs.1.50 crore)	-	-	-	2.50	IVR A3+