

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Bihar Foundry and Castings Ltd

August 8, 2019

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Facilities -Cash Credit	53.98	IVR BB-/Stable (IVR Double B Minus with Stable Outlook)	Assigned
Long Term Facilities -Term Loan	61.36	IVR BB-/Stable (IVR Double B Minus with Stable Outlook)	Assigned
Short Term Bank Facilities	24.55 (Including proposed limits of Rs.20.55 crore)	IVR A4 (IVR A Four)	Assigned
Total	139.89		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Bihar Foundry and Castings Ltd (BFCL) derives comfort from its experienced promoters, locational advantage and healthy growth in scale of operations and timely debt servicing over the past twelve months. However, the rating strengths are partially offset by instances of past delays, volatility in the prices of raw materials and finished goods, thin profit margins, high competition, cyclicality in the steel industry, working capital intensive nature of operations and its leveraged capital structure coupled with weak debt protection parameters. Growth in scale of operations, improvement in profitability & gearing level, global demand and supply scenario of steel products and efficient working capital management are the key rating sensitivities.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

BFCL was promoted by Mr. Hari Krishna Budhia in 1971, a first-generation entrepreneur and has an experience of over four decades in the steel industry. Longstanding presence of the promoters in the industry has resulted in established relationship with its customers and suppliers. Further, the promoters have supported the business of BFCL by infusing funds in the form of unsecured loans (Rs.9.49 crore outstanding as on March 31, 2019) and have

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demonstrated positive commitments since inception. The day to day operations of the company are managed by Mr. Hari Krishna Budhia and his son, Mr. Gaurav Budhia. They are ably supported by other highly experienced key managerial personnel of the company.

Locational advantage

BFCL's manufacturing facility is located in Ramgarh district of Jharkhand, which is in close proximity to various producers/dealers of its main raw materials (iron ore/coal). The results in easy availability of quality raw materials and savings in transportation costs.

Growth in scale of operations

Favourable demand scenario for steel products over the past three years resulted in higher capacity utilisation coupled with higher sales realisations for BFCL. The company has achieved a revenue CAGR of ~47% during FY17-19 with a y-o-y growth of ~58% in FY19.

Key Rating Weaknesses

Instances of past delays

The company has instances of delays in the past due to its stretched liquidity. However, over the past twelve months the account is running regular with no delays as confirmed by the banker and the management.

Volatility in the prices of raw materials and finished goods

The cost of raw materials (coal, coke, iron ore, manganese ore, MS scrap) is the largest component of BFCL's total cost of production (~60% in FY19). It does not have any captive source for its primary raw materials (i.e. iron ore, manganese ore, coal). Accordingly the entire requirement for raw materials is met from the open market at spot prices. Given that these raw material prices are volatile in nature, the same exposes the company to input price fluctuation risk. Additionally, the demand for steel products to a large extent is driven by international and domestic demand supply dynamics, resulting in volatility in the prices of finished goods.

Thin profit margins

The EBITDA margin of the company has been moderate, in the range of 4.5-7% during the last three years. However, it moderated from 6.64% in FY18 to 4.58% in FY19 due to increase in raw material prices and manufacturing costs as compared to sales realisations.

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Over the years, the PAT margin of the company remained thin, mainly due to high interest outgo. Weak profitability resulted in low cash accruals for the company, leading to cash flow mismatches in the past, which led to delays in servicing of debt by the company.

High competition and cyclicity in the steel industry

The company faces stiff competition from not only established players, but also from the unorganised sector. The steel industry is also cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downturn in the prices. Any adverse fluctuations in the prices of finished products or any downturn in the steel sector may impact BFCL adversely.

Working capital intensive nature of operations

BFCL's operations are working capital intensive in nature mainly due to its high inventory period. The company mostly funded its working capital requirements through bank borrowings which resulted in high utilisation of its working capital limits. The average utilisation of bank borrowings of the company remained high at ~99% during the past 12 months ended June 31, 2018.

Leveraged capital structure coupled with weak debt protection parameters

The capital structure of the company remained leveraged marked by high overall gearing (treating the unsecured loans as neither debt nor equity) of 1.83x as on March 31, 2019 (1.87x as on March 31, 2018). The leveraged capital structure was mainly on account of the debt funded capex undertaken by the company during 2011 to 2015 for commissioning a sponge iron manufacturing plant, a 6MW WHRB power plant and a 9MVA submerged electric arc furnace. Due to term loans availed for the project, the repayment obligations of the company remained high in the past vis-à-vis its cash accruals which resulted in weak debt service coverage ratio. Owing to the high debt levels, coverage indicators also stood weak with interest coverage of 1.34x and total debt to GCA of 13.32x in FY19. The debt-funded capital expenditure undertaken by the company in the past and the high working capital intensity of operations is expected to keep the capital structure and credit metrics stretched in the near term.

Analytical Approach: Standalone.

Applicable Criteria:

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Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

The company has stretched liquidity marked by tightly matched accruals to repayment obligations, highly utilized bank limits and low unencumbered cash and bank balance of Rs.0.07 Crore as on March 31, 2019.

About the Company

Incorporated in 1971, Bihar Foundry and Castings Ltd (BFCL) was promoted by Mr. Hari Krishna Budhia. The company started its commercial operations from 1978. The manufacturing facility of the company is located in Ramgarh district of Jharkhand. Presently, BFCL is engaged in the manufacturing of Sponge Iron, MS Billets and Ferro-alloys (silico-manganese and ferro-manganese). The present capacity for billets and sponge iron is 100000 MTPA each. For ferro-alloys production, it has two 5MVA and two 9MVA submerged electric arc furnaces.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	403.60	638.47
EBITDA	26.80	29.21
PAT	0.52	0.99
Total Debt (Excl. Subordinated Loans)	131.31	130.17
Tangible Net worth	70.26	71.25
EBITDA Margin (%)	6.64	4.58
Overall Gearing Ratio (x) (Excl. Subordinated Loans)	1.87	1.83

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits -	Long Term	53.98	IVR BB-/ Stable	-	-	-

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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
	Cash Credit			Outlook			
2.	Long Term Fund Based Limits – Term Loan	Long Term	61.36	IVR BB-/ Stable Outlook			
2.	Short Term Non-Fund Based Limits – BG/LC (Including proposed limits of Rs.20.55 crore)	Short Term	24.55	IVR A4	-	-	-

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: Mr. Deepayan Ghosh

Tel: (033) 46022266

Email: deepayanghosh@infomerics.com

Name: Mr. Avik Podder

Tel: (033) 46022266

Email: apodder@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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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 Fund Based Limits–Cash Credit	-	-	-	53.98	IVR BB-/Stable Outlook
Long Term Fund Based Limits–Term Loan	-	-	March 2025	61.36	IVR BB-/Stable Outlook
Short Term Non-Fund Based Limits–BG/LC (Including proposed limits of Rs.20.55 crore)	-	-	-	24.55	IVR A4