Press Release

Bhaskar Steel & Ferro Alloy Private Limited

February 20, 2019

Rating

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	36.60 (including proposed limits of Rs. 1.60 crore)	IVR BBB-/Positive (IVR Triple B Minus with Positive Outlook)	Assigned
Short Term Bank Facilities	6.40	IVR A3 (IVR Single A Three)	Assigned
Total	**43.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Bhaskar Steel & Ferro Alloy Private Limited (BSFAPL) derive comfort from its experienced promoters, full captive power sourcing and backward integration for Billet plant, improving capacity utilization and comfortable capital structure with comfortable debt protection parameters. However, the rating is constrained by fall in EBIDTA & Range bound margins, volatility in prices, highly competitive & fragmented nature of industry and cyclicality in Steel Industry. Scale of operation, profitability & gearing level, global demand and supply &prices of steel products and working capital management are the key rating sensitivities.

The positive outlook emanates from the expectation that the company will be able to expand operations and improved debt protection parameters in the short run.

List of Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters

The current promoters have around two decades of experience in steel industry with the flagship company being SRMB Srijan Pvt. Ltd. (SRMB) having a good brand name. BSFAPL was taken over by the current promoters, Mr. Nikunj & Ashish Beriwal in 2010. They are well supported by other directors and a team of experienced personnel.

Full captive power sourcing and backward integration for Billet plant

The plant of BSFAPL has an installed power plant of 12MW, whereas the requirement of the plant in its full capacity comes to 11 MW. Hence, the entire power is captively sourced, and the company saves on the production cost. Also, the sponge iron produced by the company is used as a raw material for Billets manufacturing.

Improving capacity utilisation

Capacity utilization (CU) for manufacturing of sponge iron and billets, remained moderate in FY18 at around 63% and 48% respectively. However, the same is improving and in 9MFY19, capacity utilisation improved to 83% and 87% with improvement in the steel industry scenario.

Comfortable capital structure with comfortable debt protection parameters

The capital structure of has improved considerably in FY 18 due to repayment of scheduled loans and prepayment of loan of Central Bank of India. The long term debt equity ratio and the overall gearing ratio were comfortable as on March 31, 2018. However, Total debt / Adjusted Networth was moderate. The debt protection metrics marked by the interest coverage ratio, Long Term Debt / EBIDTA and Long-term debt to GCA was comfortable as on March 31, 2018. The company also prepaid its entire term till date.

Key Weaknesses

Fall in EBIDTA & Range bound margins

BSFAPL's absolute EBIDTA in FY18 reduced vis-à-vis FY16-FY17, due to fall in sales; however, EBIDTA margin has been range bound. PAT margin exhibited an increasing trend and improved due to reduction in the interest cost.

Volatility in prices

The price of iron ore/coal is volatile in nature and the same exposes the company to input price fluctuation risk. However, for coal, the company is having a linkage with importers of South African coal and that is used in the product, as iron content is higher. Furthermore, pig iron prices are showing an increasing trend. Hence, the margins are susceptible to the volatility in the input prices. Iron ore is obtained from mines in Orissa; however, the nearest port is Dhamra port where the coal is transported from the dock to the location, and raw material cost rises as transportation cost is high.

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.

Cyclicality 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 BSFAPL'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, 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

BSFAPL's liquidity profile seems satisfactory in the short-medium term. In the current year, it has repaid its entire term loan and it does not envisage any fresh term loan as the company does not have any plan to expand its capacity in near future. The cash DSCR appears to be comfortable in the projected period. The company is performing satisfactorily, and the projections are muted; however the company expects higher cash accruals in the projected period. Further, the company has an unutilized credit line of about Rs.17crore. This, along with resourcefulness of the promoter, do not indicate any difficulty for the company in meeting debt obligations in the near term.

About the Company

Bhaskar Steel & Ferro Alloy Private Limited (BSFAPL), incorporated in September 2003, was promoted by Maliram Shiva Kumar Group, a group based out of Nepal. The company was taken over by the promotors of SRMB Srijan Pvt. Ltd. in Oct, 2010BSFAPL is majorly into manufacturing of Sponge Iron and billets and trading of TMT Bars, Billets, etc. The Board of Directors of BSFAPL comprises promoter directors. The day-to-day affairs of the factory are looked after by Mr. Nikunj Beriwala, while Mr. Ashish Beriwala looks after the procurement of raw materials. The promoters have around two decades of business experience in trading & manufacturing of iron and steel products.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	315.44	275.42
EBITDA	16.98	15.91
PAT	1.54	2.16
Total Debt	74.20	41.54
Tangible Net worth	43.46	46.10
EBITDA Margin (%)	5.38	5.78
PAT Margin (%)	0.49	0.78
Overall Gearing Ratio (x)	1.71	0.90

*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.1.60 crore)	Long Term	36.60	IVR BBB-/Positive	-	-	-
2.	Short Term Non Fund Based Limits –Letter of Credit	Short Term	3.90	IVR A3	-	-	-
3.	Short Term Non Fund Based Limits –Bank Guarantee	Short Term	2.50	IVR A3	-	-	-

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.

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.1.60 crore)	-	-	-	36.60	IVR BBB-/Positive
Letter of Credit	-	-	-	3.90	IVR A3
Bank Guarantee	-	-	-	2.50	IVR A3