

BMA Stainless Limited: Assigned

| Facilities | Amount (Rs. Crore) | Ratings/Outlook |
|--------------------|--------------------|----------------------------|
| Cash Credit | 57.50 | SMERA A-/Stable (Assigned) |
| Long Term Proposed | 2.50 | SMERA A-/Stable (Assigned) |
| Letter of Credit | 5.00 | SMERA A2+(Assigned) |

SMERA has assigned long term rating of '**SMERA A-**' (read as **SMERA A minus**) and short term rating of '**SMERA A2+**' (read as **SMERA A two plus**) on the Rs.65.00 crore bank facilities of BMA Stainless Limited (BSL). The outlook is '**Stable**'.

The ratings derive comfort from the company's experienced management, long track record of operations, robust financial risk profile and efficient working capital management. The ratings also take into account the established relations of the company with customers and suppliers and the market position. Further, the ratings note the healthy scale of operations. However, the ratings are constrained by the exposure of profit margins to inherent cyclicity in the steel industry and intense market competition.

BSL was established in 2003 by Mr Avinash Agarwalla who possesses over a decades experience in the steel industry. The company is part of the BMA Group of Industries that has its presence across iron and steel, financial services, ferro alloys among others. BSL is engaged in the manufacture of billets and TMT bars. The robust financial risk profile is marked by low gearing, high interest coverage ratio and NCA/TD and healthy debt protection measures. The debt equity stands at 0.86 times and interest coverage at 3.33 times in FY2016. Moreover, NCA/TD is at 0.20 times and DSCR is at 2.47 times in FY2016. The net worth of the company stood at healthy levels of around Rs.64.65 crore in FY2016. Besides, the company has no major long term debt obligations. The working capital efficiency is marked by low average working capital days in the range of 30-60 over the last three years. The average inventory has been in the range of 36-53 days with a well-managed receivable cycle and absence of bad debts in the last few years.

Over the years, BSL has established relationships with its customers and suppliers. The major suppliers are Tata Sponge Iron Ltd, Monnet Ispat & Energy Ltd, Jindal Steel & Power Ltd and Rungta Mines Ltd to name a few. The company has a strong network of over 2500 dealers across Bengal, Bihar, Jharkhand to sell TMT Bars under the brand name of 'Captain'.

The revenue grew at a CAGR of 7.57 per cent in the last three years, an increase from Rs.306.51 crore in FY2014 to Rs.392.11 crore in FY2015 due to expansion in the billet manufacturing capacity from 60,000 tpa to 90,000 tpa in FY2014-15. However, the company's revenue dipped to Rs.381.56 crore in FY2016 due to fluctuations in prices of steel. The volume of sales increased year on year from 79,021 to 96,356 tons.

BSL's billet manufacturing capacity is 90,000 tpa and while that for TMT bars is 120,000 tpa. The billets are captively consumed and meets around 75 per cent requirement with the balance sourced locally. The company now plans to add another 30,000 tpa induction furnace to meet the TMT requirements. The moderately integrated line of operations has ensured stable margins for the company.

The rating is however constrained by exposure to inherent cyclicity in the steel industry and competition from other organised and unorganised players including Shyam Steel Industries, Tata Steel, SRMB TMT bars to name a few.

Rating Sensitivity Factors

- Sustenance of profit margins
- Extent of debt funding capex mix

Outlook-Stable

SMERA believes that BSL will maintain a stable outlook and continue to benefit over the medium term from the promoters' extensive experience in the manufacturing of TMT bars and its established brand name. The outlook may be revised to 'Positive' if BSL achieves more than envisaged sales and profitability while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and financial risk profile or registers deterioration in the financial risk profile owing to higher-than-expected increase in debt-funded capex requirements.

Criteria applied to arrive at the ratings:

- Manufacturing entities

About the Company

The Kolkata-based BSL was established in 2003. The company is engaged in the manufacture of billets and TMT bars and has an installed capacity of 90,000 and 1,20,000 tons per annum (tpa), respectively. The company sells its products under the 'Captain' brand name.

For FY2015-16, BSL reported profit after tax (PAT) of Rs.8.06 crore on total operating income of Rs.381.56 crore as compared with profit after tax (PAT) of Rs.7.66 crore on total operating income of Rs.392.11 crore in FY2014-15.

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ABOUT SMERA

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