

Press Release

BMA Stainless Limited

14 December, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 130.00 Crore (Enhanced from Rs 65.00 Crore)
Long Term Rating	SMERA A- / Outlook: Stable (Reaffirmed)
Short Term Rating	SMERA A2+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the 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. 130.00 crore bank facilities of BMA Stainless Limited (BSL). The outlook is 'Stable'.

The Kolkata-based BMA Stainless Limited was incorporated in 2003 by Mr. Avinash Agarwalla. The company is engaged in the manufacture of billets and TMT bars at Burdwan District, West Bengal 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.

Key Rating Drivers

Strengths

Experienced management

BSL was incorporated in 2003 by Mr Avinash Agarwalla who has more than a decade of experience in the steel industry. The company is part of the BMA group founded by the Late Mr Bhurumal Agarwalla in 1920. The group has a diversified profile with interests in refractories, ferro alloys, iron and steel, financial services and cement.

Healthy financial risk profile

The robust financial risk profile is marked by healthy net worth, comfortable gearing and healthy debt protection measures. The net worth stood at around Rs 74.75 crore in FY2017 as against Rs 64.65 crore in FY2016. The total debt of Rs 46.28 crore in FY2017 consists of term loan of Rs7.65 crore and working capital facility of Rs 38.63 crore. The gearing (debt equity) improved to 0.62 times in FY2017 compared to 0.86 times in FY2016. The interest coverage also improved and stood comfortable at 3.76 times in FY2017 as against 3.33 times in FY2016. Though there has been a marginal dip in DSCR, the same stood comfortable at 2.10 times in FY2017 compared to 2.47 times in FY2016. Moreover, the NCA/TD stood at 0.29 times in FY2017 and 0.20 times in FY2016. Going forward, SMERA believes there will be no major moderation in the financial risk profile and the same would stand healthy in the medium term.

Established relations with customers and suppliers

Over the years, BMA has established long term relations with 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 West Bengal, Bihar, Jharkhand to sell TMT Bars under the brand name 'Captain'. It plans to have another 10,000 dealers by the end of FY2017-18.

Healthy growth in revenue

BMA registered a 21.79 per cent revenue growth in FY2017. Revenue increased to Rs 464.71 crore in FY2017 from Rs 381.56 crore in FY2016. The rise is on account of increase in the sale of TMT bars of 1, 32,037 MT in FY2017 from 96,356 MT in FY2016. Also during the current year, the company booked revenue of Rs 305.17 crore till 30 Sept, 2017 and expects to cross Rs 700 crore in FY2018. Going forward, SMERA believes that there will be further improvement in the topline as BSL has entered into an agreement with JMD Alloys Limited (JMD), a Patna based company to work on a job work basis for BSL. The contract envisages conversion of billets into TMT bars with an expected capacity of 8,000 to 10,000 tons per month. The test run for production commenced in October' 2017 with operations likely to commence from January 2018.

Weaknesses**Unsecured nature of advances**

BSL has provided an unsecured interest free advance Rs 36.24 crs to JMD (a Patna based company) for the modernization and upgradation of the plant and machinery. BSL has entered into an agreement with JMD for exclusive conversion of the billets to TMT bars for BSL. The production capacity for TMT bars is expected between 8,000- 10,000 MT per month. Test run for the production commenced in October'2017 with operations likely to commence from January 2018. Going forward, repayment tenure of the interest free advance will remain a key rating sensitivity.

Moderate Working capital Management

The working capital management is marked by gross current asset (GCA) days of 69 in FY2017 as against 115 in FY2016. The debtors stood at 42 days in FY2017 compared to 60 days in FY2016. The inventory days stood at 17 in FY2017 as against 43 in FY2016. Utilization of bank facilities stood at 98 per cent in the last six months ended September'2017.

Exposure to inherent cyclicity in the steel industry

The profit margins and sales of the company remains exposed to inherent cyclicity in the steel industry.

Presence in highly competitive and fragmented industry

BSL operates in a competitive and fragmented industry.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profiles of BSL.

Outlook: Stable

SMERA believes that BSL will continue to benefit over the medium term from the promoters long experience in manufacturing of TMT bars and from its established brand. 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 further deteriorates owing to higher-than-expected increase in debt- funded working capital requirement.

About the Rated Entity - Key Financials

For FY2016-17 - the company reported Profit after tax(PAT) of Rs 10.11 crore as against operating income of Rs 464.71 crore as against Profit after tax(PAT) of Rs 8.06 crore as against operating income of Rs 381.56 crore in FY 2015-16.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instruments/Facilities	Term	Amount (Rs Crore)	Ratings/Outlook
23rd Nov'16	Proposed Long Term Loan	Long Term	2.50	SMERA A-/Stable (Assigned)
	Cash Credit	Long Term	57.50	SMERA A-/Stable(Assigned)
	Letter of Credit	Short Term	5.00	SMERA A2+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	117.50 (enhanced from 57.50 crs)	SMERA A-/Stable (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	7.50 (enhanced from 2.50 crs)	SMERA A-/Stable (Reaffirmed)

Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A2+ (Reaffirmed)
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ABOUT SMERA

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