

Press Release

BMA Stainless Limited

December 06, 2018

Rating Upgraded



Total Bank Facilities Rated*	Rs. 200.00 Cr. (Enhanced from Rs.130.00 crore)
Long Term Rating	ACUITE A / Stable (Upgraded from ACUITE A- / Stable)
Short Term Rating	ACUITE A1 (Upgraded from ACUITE A2+)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long term rating to '**ACUITE A**' (read as **ACUITE A**) from '**ACUITE A-**' (read as **ACUITE A minus**) and short term rating to '**ACUITE A1**' (read as **ACUITE A one**) from '**ACUITE A2+**' (read as **ACUITE A two plus**) on Rs.190.00 crore bank facilities of BMA Stainless Limited (BSL). Acuite has also assigned short term rating of '**ACUITE A1**' (read as **ACUITE A one**) on the Rs 10.00 crore of proposed bank facilities of BSL. The outlook is '**Stable**'.

The upgrade reflects significant improvement in revenue and profitability metrics in FY2018 and the H1 of FY2019 (Provisional) resulting in stronger business and financial risk profile of BSL. The revenue improved to Rs.730.93 crore in FY2018 as compared to Rs.464.71 crore in FY2017. Further, during the current financial year, the company has clocked revenue of Rs.623.17 crore till September, 2018 (Provisional). The operating profitability margins improved to 7.78 percent in FY2018 as compared to 4.73 percent in the previous year. The improvement in top-line and margins has led to the increase in net accruals which stood at Rs.31.73 crore in FY2018 as compared to Rs.13.56 crore in the previous year. Acuite has also considered the overall improvement in financial risk profile marked by healthy net worth, comfortable gearing, and healthy debt protection metrics. Going forward, Acuite believes there would be further improvement in the business and financial risk profile given the established position of BSL in Eastern India having a strong brand and the positive demand outlook of the steel industry at present.

The Kolkata-based, BSL was incorporated in 2003 by Mr. Avinash Agarwalla. The company is engaged in the manufacture of billets and TMT bars at Burdwan (West Bengal) and has an installed capacity of 1,20,000 (enhanced from 90,000 MTPA) and 1,62,000 (enhanced from 1,20,000 MTPA) tons per annum (TPA), respectively. The company sells its products under the 'Captain' brand name.

Analytical Approach:

Acuite has taken a standalone view of the business and financial risk profile of BSL to arrive at the rating.

Key Rating Drivers:

Experienced management and long track record of operations

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 BMA group founded by 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.102.48 crore as on 31 March, 2018 as against Rs.74.75 crore in the previous year. The gearing (debt equity) stood at 0.88 times as on 31 March, 2018 compared to 0.62 times in the previous year. The total debt of Rs.90.01 crore as on 31 March, 2018 consists of term loan of Rs.8.87 crore and working capital facility of Rs.81.14 crore. The interest coverage ratio improved and stood healthy at 5.39 times in FY2018 as against 3.76 times in FY2017. The DSCR stood comfortable at 3.26 times in FY2018 compared to 3.10 times in FY2017. Moreover, the NCA/TD stood at 0.35 times in FY2018. Going forward, Acuite expects continuous improvement in the overall financial health of the company in the absence of any significant debt funded capex plan over the medium term.

Healthy growth in revenue

BSL registered a 57.29 percent revenue growth in FY2018 (Provisional). Revenue increased to Rs.730.93 crore in FY2018 from Rs.464.71 crore in FY2017. The rise is on account of increase in both sales volume and realisation per unit. BSL sold 1,79,414 MT in FY2018 compared to 1,32,037 MT in FY2017. Also during the current year, the company booked revenue of Rs.623.17 crore till 30 September, 2018 (Provisional). The increase in the revenues could also be attributable to its revenues from sale of TMT bars through job work done by JMD Alloys Limited, a Patna based company. BSL has entered into an agreement with this company in October 2017 to convert billets into TMT bars and have an installed capacity of 180,500 MTPA. The rolled TMT from JMD Alloys are being supplied to the markets of Bihar, Uttar Pradesh and parts of Jharkhand under the brand of 'Captain'.

Efficient Working capital management

BSL's working capital cycle is prudent marked by Gross Current Asset (GCA) days of 78 in FY2018 as against 81 days in FY2017. The average inventory is in the range of 19-43 days in the last three years ended FY2018. The company has a well-managed receivable cycle, with no instances of bad debt in the last few years. Average debtor days stood at 43-60 in the last 3 financial years. The company undertakes various promotional activities with their dealers and customers to generate loyalty towards the brand.

Weaknesses

Susceptibility of profitability to volatility in raw material prices

The price of the key raw material, sponge iron and billets which accounts for 70 percent of raw material cost is volatile. Any sharp upward movement in the raw material prices and the inability of the company to pass on the increased cost of raw materials may result dip in operating margins.

Outlook: Stable

Acuite believes that the outlook on BSL rated facilities will remain 'Stable' over the medium term backed by its experienced management. The outlook may be revised to 'Positive' in case the company registers more than envisaged sales and profitability while improving its working capital cycle. The outlook may be revised to 'Negative' in case the company fails to achieve envisaged revenue and profitability and its working capital cycle gets stretched or its financial risk profile deteriorates.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	730.93	464.71	381.56
EBITDA	Rs. Cr.	56.89	21.97	20.76
PAT	Rs. Cr.	28.06	10.11	8.06
EBITDA Margin	(%)	7.78	4.73	5.44
PAT Margin	(%)	3.84	2.18	2.11
ROCE	(%)	34.62	18.02	16.42
Total Debt/Tangible Net Worth	Times	0.88	0.62	0.86
PBDIT/Interest	Times	5.39	3.76	3.33
Total Debt/PBDIT	Times	1.52	1.78	2.49
Gross Current Assets (Days)	Days	78	81	115

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-Dec-2017	Cash Credit	Long Term	117.50 (enhanced from Rs 57.50 crore)	ACUITE A-/Stable (Reaffirmed)
	Proposed	Long Term	7.50 (enhanced from Rs 2.50 crore)	ACUITE A-/Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Reaffirmed)
23-Nov-2016	Proposed Long Term Loan	Long Term	2.50	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	57.50	ACUITE A-/Stable (Assigned)

	Letter of Credit	Short Term	5.00	ACUITE A2+ (Assigned)
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***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	115.00	ACUITE A/Stable (Upgraded from A-/Stable)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE A/Stable (Upgraded from A-/Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A1 (Upgraded from A2+)
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A1 (Assigned)

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About Acuite Ratings & Research:

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