



## Press Release

**CAPTAIN STEEL INDIA LIMITED (erstwhile BMA STAINLESS LIMITED)**

**June 21, 2023**

## Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	60.00	ACUITE AA-   Stable   Assigned	-
Bank Loan Ratings	170.00	ACUITE AA-   Stable   Reaffirmed	-
Bank Loan Ratings	30.00	-	ACUITE A1+   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	<b>260.00</b>	-	-

## Rating Rationale

Acuite has reaffirmed the long term rating of '**Acuit é AA-**' (read as **Acuite double A minus**) and short term rating of '**Acuit é A1+**' (read as **Acuite A one plus**) to the Rs.200.00 Cr bank facilities of Captain Steel India Limited (CSIL).

Further, Acuite has assigned the long term rating of '**Acuit é AA-**' (read as **Acuite double A minus**) to the Rs. 60 Cr. bank facilities of Captain Steel India Limited.

The outlook is '**Stable**'.

## Rationale for reaffirmation:

The reaffirmation in rating takes into account the sustained business performance of the company alongwith strong financial risk profile and prudent working capital management resulting into lower working capital limit utilization and strong liquidity profile. The rating further factors in the established track record of operation in the steel industry, company's established market position in eastern region along with strong brand presence and wide distribution network in TMT bars. The business strengths are also derived from the management strategy of expanding its outrun through acquisition of entities on lease along with efficient working capital management. However, these strengths are partially offset by the cyclical nature of steel industry and the vulnerability of margins to the fluctuations in commodity prices as can be seen from dipping margins of the company. Also, the company is facing strong competition from other integrated players in the market due to moderate backward integration resulting into price pressure and cost absorption forming one of the major factor in profitability dip.

## About the Company

Captain Steels India Limited (Erstwhile BMA Stainless Limited) was established as a Kolkata based company in the year 2003. It is engaged in the manufacturing of MS Billets and TMT bars and has an installed capacity of 207,360 MTPA and 249,630 MTPA respectively. The company sells TMT bars under the brand name "Captain". Currently the company is managed by Mr. Avinash Agarwalla, Mr. Vijay Gupta and Mr. Sanjay Gupta.

In Oct'17, CSIL entered into an agreement with JMD Alloys Limited (a Patna based company) having a production capacity of 1,80,500 MTPA for TMT bars for exclusive conversion of the billets to TMT Bars which conforms to the 600 EQR of the "Captain TMT" under the different sizes and specifications mentioned by CSIL.

Further, CSIL has taken over a new unit in Durgapur under lease agreement for 10 years in August 2020. This unit has started manufacturing of TMT bars exclusively for CSIL under the

brand name of "Captain" from November 2020 onwards with the installed capacity of 96,000 MTPA. The unit's operation is currently suspended on account of certain cost issues.

### **Analytical Approach**

Acuité has considered standalone business and financial risk profile of CSIL while arriving at the rating.

### **Key Rating Drivers**

#### **Strengths**

##### **Long track record of operation and experienced management**

CSIL was established in 2003 by Mr. Avinash Agarwalla. He has almost two decades of experience in the steel industry. Over the years, the company has been able to establish a strong brand, 'Captain' and penetrate into states such as Bihar, Jharkhand, and parts of Uttar Pradesh, apart from West Bengal. Acuité believes that CSIL will continue to benefit from the long experience of the management in establishing relations with their key suppliers and customers. Over the years, CSIL established relationships with its customers and suppliers and sold TMT bars through various distribution channels in the market. The company currently has 6,000 dealers in the eastern region of the country.

##### **Healthy and sustained scale of operations**

The revenue of the company witnessed an 8 percent growth in FY2023 (Provisional), its revenue increased to Rs. 2061.69 crore in FY2023 as compared to Rs. 1907.52 crore in the previous year. This growth in revenue for the company is mainly due to the increase in average realisation to Rs. 61631/MT in FY2023 (Provisional) as compared to Rs. 56718/MT in the previous year. To cater to the markets of Bihar, UP, and Jharkhand, the company has started rolling and processing TMT bars in JMD Alloys Limited (Patna Unit) by paying conversion charges of Rs. 4000/MT. The average realisation of this unit has also increased to Rs. 62504/MT in FY 2023 (Provisional) as compared to Rs. 58770/MT in the previous year. Further, the company stopped production in its Barjora Plant in September 2022 as the unit was not cost-efficient; however, the company still has its lease and will restart operations once the RM prices cool down. In order to increase its hold in West Bengal and adjoining areas, the company is planning for expansion in its Asansol unit.

##### **Robust financial risk profile**

The financial risk profile of the company is marked by strong net worth, nil gearing, and strong debt protection metrics. The net worth of the company stood at Rs. 519.74 crore in FY 2023 (Prov.) as compared to Rs. 464.06 crore in FY2022. This improvement in net worth is mainly due to the retention of current-year profit. The gearing of the company is 0.02 as of March 31, 2023, compared to nil as of March 31, 2022. Such kind of gearing is mainly on account of improvement in net worth and a better debtor management strategy of the company, wherein the dealers have to clear their payments till January by the end of March, failing which the incentives of the dealer get impacted. Such prudent debtor management results in low short-term debt utilisation. The coverage indicators of the company, though moderated, remained strong, as is apparent from the ICR and DSCR of the company, which stood at 10.11 and 7.75 times in FY23 (Prov.). The net cash accruals to total debt (NCA/TD) stood strong at 5.46 times in FY2023 (Prov.). Going forward, Acuite believes the financial risk profile of the company will remain robust on account of steady net cash accruals against an upcoming minimal debt obligation of Rs. 10.71 crore.

##### **Prudent working capital management**

The prudent working capital management of the company is marked by comfortable GCA days of 68 days in FY2023 (Prov.) as compared to 80 days in FY2022. The debtor days of the company stood comfortably at 34 days in FY2023 (Prov.) as compared to 35 days in the previous year. The inventory-holding period of the company also stood comfortably at 17 days in FY2023 (Prov.) as compared to 20 days in the previous year. Moreover, the company had nil utilisation of its working capital facility for the last six months ended April 2023. Acuité

believes that the working capital of the company will be maintained at prudent levels over the medium term, backed by the efficient debtor's management policy of the promoters.

## **Weaknesses**

### **Declining profitability position**

Though the average realisation of the company has seen a northward move, profitability has gone southward as the company was unable to pass on the rise in RM cost completely to the customers due to competition and the prevailing market rates. The profitability margin has seen a downward run in the past three years, as can be seen from the EBITDA and PAT margins of the company, which stood at 5.90% and 2.81% in FY23, as compared to 6.98% and 5.25% in FY22 and 10.32% and 7.19% in FY21, respectively. Acuite expects the margins to sustain at the FY23 levels in the short to medium term and to get better once the CAPEX and SAP implementation results in better cost management and efficient production.

### **The unsecure nature of advances**

CSIL has provided an unsecured, interest free advance of Rs 49.80 crore to JMD Alloys Limited (a Patna based company) for the modernization and upgradation of the plant and machinery. CSIL has entered into an agreement with JMD for the exclusive conversion of the billets to TMT bars for CSIL. The production capacity for TMT bars is 180,500 MTPA. The company is expecting Rs. 32.00 crore as a capital investment subsidy, which has already been approved. Once the payment is received, it will be transferred to CSIL for adjustment of the advances given.

### **Intense competition and inherent cyclicality in the steel industry**

The group is operating in a competitive and fragmented industry due to the presence of a large number of unorganised players and low entry barriers. Moreover, demand for steel products predominantly depends on the construction and infrastructure sectors. Thus, the profit margins and sales of the company remain exposed to the inherent cyclicality in these sectors.

## **Rating Sensitivities**

- Scale up in operation with improvement in the operating margin
- Improvement in capacity utilization and volume sales

## **Material covenants**

None

## **Liquidity Position**

**Strong**

The Company has a strong liquidity position marked by healthy net cash accruals of Rs. 63.26 crore as against nil long-term debt obligations in FY2023 (Prov.). The cash accruals of the company are estimated to remain in the range of around Rs. 120 crore as against no long-term debt obligations during FY24 and FY25. The current ratio of the company stood at 3.69 times in FY2023 (Prov.). The Gross Current Asset (GCA) days of the company stood healthy at 68 days in FY2023 (Prov.). The average bank limit utilisation of the company was nil during the last six months, which ended April 23. Further, average maximum utilisation stood very low at 8.08% during the same period, giving adequate legroom for growth capital in the form of unutilized bank limits of Rs. 230 crore, and the company's debt equity position of 0.02 times in FY23 (Prov.) shows sufficient opportunity to manage funds for capex without much compromising the comfortable capital structure of the company. Adding to the liquidity position of the company is the cash and bank position of the company, which stood at Rs. 80.45 crore on March 31, 2023.

## **Outlook: Stable**

Acuité believes that the outlook of the company will remain stable over the medium term backed by its experienced management, established brand presence, healthy scale of operations and robust financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in revenues while achieving sustained improvement in operating margins and working capital management. Conversely, the outlook may be revised to 'Negative' in case of any decline in the company's revenues or further decline in profit margins, or in case of sharp deterioration in the company's financial risk profile and liquidity position owing to significant debt funded CAPEX.

**Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	2061.69	1907.52
PAT	Rs. Cr.	57.92	100.07
PAT Margin	(%)	2.81	5.25
Total Debt/Tangible Net Worth	Times	0.02	0.00
PBDIT/Interest	Times	10.11	20.89

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

Not Applicable

### Any other information

None

### Applicable Criteria

- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Mar 2022	Proposed Bank Facility	Long Term	20.00	ACUITE AA-   Stable (Upgraded from ACUITE A+   Stable)
	Cash Credit	Long Term	75.00	ACUITE AA-   Stable (Upgraded from ACUITE A+   Stable)
	Cash Credit	Long Term	45.00	ACUITE AA-   Stable (Upgraded from ACUITE A+   Stable)
	Cash Credit	Long Term	20.00	ACUITE AA- (Withdrawn)
	Cash Credit	Long Term	40.00	ACUITE AA-   Stable (Upgraded from ACUITE A+   Stable)
	Bank Guarantee	Short Term	20.00	ACUITE A1+ (Reaffirmed)
27 May 2021	Bank Guarantee	Short Term	20.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE A+   Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE A+   Stable (Reaffirmed)
	Cash Credit	Long Term	45.00	ACUITE A+   Stable (Reaffirmed)
	Cash Credit	Long Term	75.00	ACUITE A+   Stable (Reaffirmed)
27 Feb 2020	Letter of Credit	Short Term	20.00	ACUITE A1+ (Upgraded from ACUITE A1)
	Cash Credit	Long Term	180.00	ACUITE A+   Stable (Upgraded from ACUITE A   Stable)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A1+   Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	85.00	ACUITE AA-   Stable   Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	45.00	ACUITE AA-   Stable   Reaffirmed
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE AA-   Stable   Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	60.00	ACUITE AA-   Stable   Assigned
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A1+   Reaffirmed



## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Sushant Kumar Mishra Senior Manager-Rating Operations Tel: 022-49294065 <a href="mailto:sushant.mishra@acuite.in">sushant.mishra@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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