

Press Release

BS Mining Corporation Private Limited

September 07, 2020



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.25.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Reaffirmed & Assigned)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.23.40 Cr. bank facilities and has assigned the long term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.1.60 Cr. bank facilities of BS Mining Corporation Private Limited (BSMCPL). The outlook is '**Stable**'.

BS Mining Corporation Private Limited (BSMCPL) was established in the year of 1994 as proprietorship firm which was later incorporated as a private limited company in the year of 2008. BSMCPL is promoted by Mr. Sarat Chandra Nayak and Mrs. Parbati Nayak. The company is engaged in undertaking contracts for mining/extraction of iron ore & manganese, civil construction work and providing transportation services.

Analytical Approach

Acuite has considered the standalone view of the financial and business risk profile BSMCPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management and established track record of operations

The promoters, Mr. Sarat Chandra Nayak and Mrs. Parbati Nayak of BSMCPL have been into the contract mining business since 1994 and have developed long standing relationships with several reputed companies. The company counts Tata Steel, SAIL, JSW Limited and Odisha Mining Corporation to name a few as its clients.

The operating income of BSMCPL has been growing steadily marked by the operating income of Rs.181.38 crore in FY2020 (Provisional) as against Rs.153.93 crore in FY2019 and Rs.110.82 crore in FY2018. The operating margin (EBITDA) stood at 16.60 per cent in FY2020 (Provisional) as against 15.11 per cent in FY2019 and net profit margin (PAT) stood at 3.38 percent in FY2020 (Provisional) as against 4.18 percent in FY2019. Further the company has a healthy order book position, with current orders in hand of Rs.917.04 crore as on March 31, 2020.

Acuite believes that the company will continue to benefit from promoter's experience in the industry and its established market presence over the medium term.

• Diversified operations and locational advantage

BSMCPL has multiple revenue streams due to the diversified nature of operations of the company. The company earns 50 percent of its revenue from Iron Ore mining, 20 percent of its revenue from Manganese Mining, 15 percent of its revenue from Civil Construction work and Transportation Services each respectively.

The mine blocks are situated near to the client's site, thereby providing easy and low transportation cost. Additionally, it has multiple advantages like a good of road, skilled & unskilled labour availability, power availability etc. Acuite believes that going forward, the company will capitalize the locational advantage to enhance profitability.

• **Moderate financial risk profile**

BSMCPL has a moderate financial risk profile marked by improvement in its net worth, debt protection metrics and gearing. The tangible net worth of the company has increased to Rs.34.54 crore as on March 31, 2020 (Provisional) from Rs.28.41 crore as on March 31, 2019 due to retention of profits. The company has a total debt of Rs.52.13 crore as on March 31, 2020 (Provisional) mainly consisting of long term debt of Rs.36.11 crore and working capital borrowings of Rs.16.02 crore.

The company has moderate gearing of 1.51 times as on March 31, 2020 (Provisional) as against 1.84 times as on March 31, 2019. Its Interest Coverage Ratio (ICR) has improved to 4.94 times in FY2020 (Provisional) from 4.53 times in FY2019. The same has been observed with Debt-Service Coverage Ratio (DSCR) which has improved to 1.51 times in FY2020 (Provisional) from 1.29 times in FY2019. The improvement in coverage ratios can be attributed to improvement in operating earnings during the period.

The total outside liabilities to total net worth (TOL/TNW) has improved to 1.65 times as on March 31, 2020 (Provisional) as against 2.05 times as on March 31, 2019. The improvement in TOL/TNW is driven by improvement in net worth during the period.

Acuite expects the financial risk profile of the company to remain moderate over the medium term on account of steady accretion to reserves.

Weaknesses

• **Working capital intensive nature of operations**

BSMCPL's operations are working capital intensive in nature as reflected in Gross Current Assets (GCA) of 110 days as on March 31, 2020 (Provisional) as against 122 days as on March 31, 2019. The improvement in GCA days can be attributed to improvement in debtors' days to 39 days as on March 31, 2020 (Provisional) as against 83 days as on March 31, 2019. The inventory days stood at 54 days as on March 31, 2020 (Provisional) as against 28 days as on March 31, 2019. The volatility in working capital ratios can be attributed to a large part of work being categorized as inventory due to late billing caused by the lockdown.

Acuite believes the company's operations are expected to remain capital intensive since the company is engaged in the extraction of iron ore and construction business, which leads to a relatively high collection and inventory period mainly due to inherent cyclicality of the industry. The company's ability to manage the working capital will be a key rating sensitivity

• **Intense competition and Tender nature of the business**

Since BSMCPL is also into civil construction work and transportation services, it faces intense competition from several mid to large size players who operate in these business segments. The risk becomes more pronounced as tendering is based on the minimum amount of bidding on contracts, and susceptibility to inherent cyclicality in the road sector. The relaxation of qualification norms by the Central Government for undertaking road projects further intensifies the competitive scenario in the industry leading to pressure on the profitability margins.

At the same time, the company wins its mining contracts from companies on tender basis. Going forward, the company's ability to successfully bid for a greater number of large orders remains to be seen.

• **High Regulatory risk in the mining sector**

The mining environment in India has been highly uncertain with respect to issues like illegal mining and risk attached to the mining activities of its clients due to a sudden change in government policies. Therefore any major regulatory changes may impact the business operations of the company.

Liquidity position: Stretched

BSMCPL has stretched liquidity position marked by near 100 percent utilization of the fund based working capital facilities over the six month period ended July, 2020. Its net cash accruals stood at Rs.21.62 crore as on March 31, 2020 (Provisional) as against Rs.15.77 crore as on March 31, 2019 as against its maturing debt obligations of Rs.14.98 crore as on March 31, 2020 (Provisional) and Rs.12.26 crore as on March 31, 2019. The NCA/TD has improved to 0.41 times as on March 31, 2020 (Provisional) from 0.30 times as on March 31, 2019. The current ratio stood at 1.35 times as on March 31, 2020 (Provisional) as against 1.43 times as on March 31, 2019. The firm had cash and bank balance of Rs.2.11 crore as on March 31, 2020 (Provisional).

Acuite believes that liquidity position can improve on the back of timely payments from its clients over the medium term.

Rating Sensitivities

- Improvement, sustainability and healthy growth of revenues and profitability margins.
- Deterioration in the working capital cycle leading to stress on the liquidity position.
- Further delays in payments from clients.
- Significant increase in repayment obligation and interest costs.

Material Covenants

None

Outlook: Stable

Acuite believes that BSMCPL will maintain a stable outlook in the medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or if the financial risk profile deteriorates due to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	181.38	153.93
PAT	Rs. Cr.	6.13	6.44
PAT Margin	(%)	3.38	4.18
Total Debt/Tangible Net Worth	Times	1.51	1.84
PBDIT/Interest	Times	4.94	4.53

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
05-May-2020	Cash Credit	Long Term	14.30	ACUITE BB (Indicative)
	Proposed Term Loan	Long Term	2.00	ACUITE BB (Indicative)
	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Indicative)
	Proposed Bank Guarantee	Short Term	1.00	ACUITE A4+ (Indicative)
14-Feb-2019	Cash Credit	Long Term	14.30	ACUITE BB / Stable (Reaffirmed)
	Proposed Term Loan	Long Term	2.00	ACUITE BB / Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Reaffirmed)
	Proposed Bank Guarantee	Short Term	1.00	ACUITE A4+ (Assigned)

12-Mar-2018	Cash Credit	Long Term	14.30	ACUITE BB / Stable (Reaffirmed)
	Proposed Term Loan	Long Term	2.00	ACUITE BB / Stable (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Reaffirmed)
03-Mar-2017	Cash Credit	Long Term	14.30	ACUITE BB / Stable (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A4+ (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	10.00%	Not Applicable	16.30 (Revised from Rs.14.30 crore)	ACUITE BB / Stable (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	3.60 (Revised from Rs.2.00 crore)	ACUITE BB / Stable (Reaffirmed)
CCECL	Not Applicable	7.25%	Not Applicable	1.60	ACUITE BB / Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.50 (Revised from Rs.0.50 crore)	ACUITE A4+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel:022-49294041 aditya.gupta@acuite.in Aditya Sahu Analyst - Rating Operations Tel: 022-49294055 aditya.sahu@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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