

## Press Release

### B C Mohanty and Sons Private Limited

December 04, 2019

#### Rating Downgraded Outlook Revised



<b>Total Bank Facilities Rated*</b>	Rs.25.00 Cr. (Enhanced from Rs.15.00 crore)
<b>Long Term Rating</b>	ACUITE BBB- / Outlook: Negative (Downgraded from ACUITE BBB/Stable)

\* Refer Annexure for details

#### Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) to Rs.25.00 crore bank facilities of B C Mohanty and Sons Private Limited (BCMSPL). The outlook is '**Negative**'.

The rating downgrade and negative outlook reflects Acuite's belief that BCMSPL is likely to witness operational challenges on account of termination of mining rights for 'Kamarda' chromite ore from March 2020. The company will have to secure alternate sources for its ferro chrome plant to ensure steady supply of raw material. Further, the Hon'ble Supreme Court has imposed penalty on the company along other key mining players due to excess mining of chromite ore beyond approved limit. The matter is pending in the appellate tribunal seeking relaxation on the imposed fine. Acuite believes that any adverse impact of the penalty or non-availability of alternate sources of raw material is likely to adversely impact the business risk profile of the company. Though, the company has diversified by entering alloy production by refurbishing their old furnaces along with additional capacity through a new plant. The impact of the same is yet to be seen as the operations are currently in initial stage.

Odisha based, B C Mohanty and Sons Private Limited, incorporated in 1976 is engaged in chromite ore mining and manufacturing of ferro chrome. The chromite mine is located at 'Kamarda' in the Jajpur mining belt of Odisha. The mining lease for the chromite mine was initially secured in 1968 by erstwhile B C Mohanty & Sons a proprietorship firm promoted by Mr. B. C. Mohanty. In 1976 the proprietorship firm was reconstituted and named as B C Mohanty And Sons Private Limited (BCMSPL). The company operates two ferro chrome furnaces of 6 MVA and 9MVA each.

#### Analytical Approach

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

#### Key Rating Drivers

##### Strengths

- **Long established presence of the promoters in the mining industry**

BCMSPL was set up in 1968 by Mr. Bhagabat Charan Mohanty. At present it is managed by Mr. Siddharth Mohanty and Mr. Abhishek Mohanty who possess extensive experience of more than two decades in the mining industry. The senior management team is ably supported by a strong line of mid-level managers. The company has forayed into manufacturing of Ferro chrome and has installed two furnaces of 6 MVA and 9 MVA capacity. The long established presence of the promoters has resulted in establishing healthy relationship with customers and suppliers.

Acuite believes that BCMSPL will continue to benefit over the medium term on the back of the extensive experience of the promoters and healthy relationship with customers.

- **Above average financial risk profile**

BCMSPL's financial risk profile is above average, marked by moderate net worth, low gearing and moderate debt protection metrics. The net worth of the company stands at Rs.98.14 crore as on March 31, 2019. The net worth of the company has declined from its previous levels of Rs.120.23 crore as on March 31, 2018 on account of losses in 2019 pertaining to reserves against anticipated penalty.

The company has followed conservative financial policy, reflected through peak gearing and Total Outside Liabilities to Tangible net worth (TOL/TNW) level of 0.36 times and 1.06 times as on March 31, 2019. The total

debt as on March 31, 2019 stood at Rs.35.04 crore as compared to Rs.26.74 crore. The total debt comprises of term loan of Rs.4.44 crore and working capital borrowing of Rs.30.60 crore. The debt to equity has remained low at 0.36 times as on March 31, 2019 and 0.22 times as on March 31, 2018. The Total Outside Liabilities to Tangible net worth (TOL/TNW) deteriorated to 1.06 times as on 31 March, 2019 from 0.32 times in the previous year on account of creation of provision for excess mining penalty of Rs.60.98 crore. The interest coverage ratio (ICR) stood at 58.01 times for FY 2019 as against 24.25 times in the previous year.

Acuite believes that the financial risk profile to remain above average over the medium term on account of limited capex requirement and conservative financial policy adopted by the company. The gearing is expected to be in the around 0.50 times over the medium term.

## Weaknesses

- **Exposure to project risk related for ferro chrome operations**

BCMSPL has commenced manufacturing of ferro chrome from FY2018-19. The raw material requirement was met through captive chromite ore mine. However, the mining lease is ending in March 2020 whereby, the company will have to source its raw material requirement from other mines. The company plans to participate in the mine auction however, any significant delay with respect to auctions and more specifically lease transfers will affect iron ore supply and profitability margins.

Acuite believes that non-availability of new mine or delay in the lease transfers through the upcoming auction process will be critical to offset the near-term profitability challenges.

- **Vulnerability of operating margin to raw material prices**

The margins are vulnerable to metal ore and ferro alloy prices. The prices exhibit considerable cyclicity, and are highly sensitive to global demand patterns and general macro-economic factors. Accordingly, the operating margin will remain vulnerable to changes in commodity prices.

- **Susceptibility to heightened regulatory risks**

Over the past few years, the mining industry has witnessed irregularities (including illegal mining, over-mining, encroachment of forest areas, and underpayment of government royalties, and conflicts with the tribal population regarding land rights) in ore-rich states, especially Karnataka, Goa, and Odisha. This led the Hon'ble Supreme Court to impose a ban on mining. The business risk profile remain constrained by high regulatory risk.

## Rating Sensitivities

- Materialization of excess mining penalty imposed by the tribunal.
- New mining lease awarded through fresh auction to ensure smooth availability of raw material.

## Material Covenants

None

## Liquidity Position: Adequate

BCMSPL has adequate liquidity. The bank limits have been on an average 70 per cent utilized for the last six months ended September 2019. Cash accrual is expected at around Rs.20.00 crore per annum in fiscals 2021 and 2022, against minimal long-term debt obligations of Rs.1.08 crore per annum, thus provide higher cushion for the incremental working capital requirement. Current ratio stood at 0.80 times as on March 31, 2019. The decline in current ratio is on account of provision created for excess mining. The company maintained healthy liquid investment of Rs.88.54 crore as on March 31, 2019 and cash and bank balance of Rs.22.88 crore. With no major debt based capex plans going forward, liquidity likely to remain adequate.

## Outlook: Negative

Acuite believes that the BCMSPL's credit profile will be impacted by termination of 50 years mining rights of Kamarda chromite ore. The rating may be downgraded, in the event of adverse impact of the proposed penalty and also inability of the company to sustain its profitability from the ferro chrome plant. The outlook may be revised to 'Stable' if the company procures new mine rights or secure alternate supply of raw material and stabilization of ferro chromite operation to sustain its operating performance.

### About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	140.00	111.02	79.62
EBITDA	Rs. Cr.	41.72	16.70	40.70
PAT	Rs. Cr.	(20.50)	10.54	26.91
EBITDA Margin	(%)	29.80	15.04	51.11
PAT Margin	(%)	(14.64)	9.49	33.79
ROCE	(%)	(17.94)	12.93	40.35
Total Debt/Tangible Net Worth	Times	0.36	0.22	0.03
PBDIT/Interest	Times	58.01	24.25	77.80
Total Debt/PBDIT	Times	0.75	1.32	0.07
Gross Current Assets (Days)	Days	140	121	120

### 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>
- Manufacturing - <https://www.acuite.in/view-rating-criteria-59.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/criteria-complexity-levels.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
27-May-2019	Cash credit	Long Term	15.00	ACUITE BBB Issuer not cooperating*
08-Mar-2018	Cash credit	Long Term	15.00	ACUITE BBB/Stable (Assigned)

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash credit	Not Applicable	Not Applicable	Not Applicable	25.00 (Enhance from Rs.15.00 crore)	ACUITE BBB-/Negative (Downgraded from Acuite BBB/Stable)

## Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a></p> <p>Bhanupriya Khandelwal Analyst - Rating Operations Tel: 022-49294053 <a href="mailto:bhanupriya.khandelwal@acuite.in">bhanupriya.khandelwal@acuite.in</a></p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a></p>

### About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.