

Press Release

B S Sponge Private Limited

October 17, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 80.00 Cr.
Long Term Rating	ACUITE A- / Stable (Assigned)
Short Term Rating	ACUITE A2+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) to the Rs. 73.00 Cr. bank facilities and short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) to the Rs. 7.00 Cr. bank facilities of B S SPONGE PRIVATE LIMITED. The outlook is '**Stable**'.

Incorporated in 2000, B S Sponge Private Limited (BSPL) is engaged in manufacturing of sponge iron and billets. The company started manufacturing of sponge iron in 2004 and billets in July, 2019. The company has set up a semi-integrated steel plant with an installed capacity of about 1,80,000 MT per annum for sponge iron and 1,20,000 MT per annum for billets at Raigarh, Chhattisgarh. The company has also installed an in-house captive power plant of 12 MW in July, 2019. The company is promoted by Mr. Parmanand Agarwal and his son Mr. Ashish Agarwal.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of BSPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced promoters**

The company has a long track record of over two decades in the sponge iron manufacturing industry. The company is promoted by Mr. Parmanand Agarwal, who has business experience of more than two decades in the steel industry. Along with him, Mr. Ashish Agarwal (son of Mr. Parmanand Agarwal) looks after the day-to-day operations of the company. The company is ably supported by a strong and experienced line of mid-level managers. Acuité believes that the vast experience of the promoter and the long track record has helped the company to establish its position in the iron and steel market of Raigarh (Chhatishgarh).

- **Proximity to raw material**

The company's manufacturing facility is located at Raigarh, Chhattisgarh, which is in close proximity to various steel plants and various producers/dealers of its main raw materials (i.e. iron ore, coal and dolomite). Further, the plant is well connected through road and rail transport that facilitates easy transportation of raw materials and finished goods. Proximity of the plant to source of raw-material and end market for its sponge iron results in lower transportation costs.

- **Healthy scale of operations and profitability**

The company's turnover increased to Rs. 368.82 crore in FY19 from Rs. 186.89 crore in FY2018, marking a whopping growth of 97 per cent. The rise in revenues is on account of volume growth driven by increased production capacity and improvement in realization for sponge iron. The company achieved revenues of Rs. 151 crore in FY20 (Provisional) out of which Rs.115 crore was from sales in sponge iron and Rs. 36.00 crore from billets.

The company has witnessed healthy operating margins of ~ 13.77 per cent in FY2019 as compared to 9.26 per cent in FY2018. The high profitability margins are due to increased capacity utilization, higher operating efficiency and better cost management. PAT margin stood high at 9.20 per cent in FY 2019 as compared to 3.30 per cent in the previous year.

The improvement in revenue and profitability has resulted in overall improvement in cash accruals which stood at Rs. 36.14 crore in FY19 as against Rs. 7.46 crore a year earlier.

- **Comfortable financial risk profile**

The financial risk profile of the company is comfortable marked by modest net worth, comfortable gearing and debt protection metrics. The tangible net worth of the company improved to Rs. 92.42 crore as on 31 March, 2019 as against Rs. 58.48 crore as on 31 March, 2018. The increase in net worth is mainly due to accretion of profits to reserves. The gearing (debt-equity) stood low at 0.70 times in FY2019 as against 0.45 times as on FY2018. The gearing ratio has remained at less than unity in the past three years ended 31 March, 2019.

The total debt of Rs. 64.98 crore as on March 31, 2019 consists of long term debt of Rs. 30.39 crore, unsecured loan of Rs. 14.15 crore and short term debt of Rs. 20.45 crore. Moreover, the interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood comfortable at 11.48 times and 9.12 times in FY2019 as compared to 7.53 times and 4.21 times in FY2018, respectively. The NCA/TD stood at 0.56 times in FY2019. Going forward, Acuité believes that the financial risk profile will remain healthy over the medium term supported by improved cash accruals.

- **Prudent working capital management**

The company's operations are efficiently managed marked by Gross Current Asset (GCA) of 62 days in FY2019 as against 81 days in FY2018. The GCA days are mainly dominated by inventory days of 35 in FY2019 compared to 36 days in FY2018. Low inventory days is mainly on account of easy availability of raw materials resulting in smooth production process. The raw materials are majorly procured on advance terms from the suppliers. The debtor days stood at 11 days for FY2019. The company on an average provides credit period of 7-15 days to its customers. Further, the moderate working capital intensity is reflected from the low utilisation of ~ 68 per cent of its working capital facilities during the twelve months ended May, 2019.

Weaknesses

- **Intense competition and inherent cyclical in the steel industry**

The company is operating in competitive and fragmented nature of industry specially in primarily steel producing industry. There are several players who are engaged in the sponge iron and billets manufacturing business in organized and unorganized sector. Moreover, the profit margins and sales of the company remains exposed to inherent cyclical in the steel industry.

Rating Sensitivity

- The company's ability to further improve its scale of operation coupled with sustenance in profitability are the key rating sensitivities.

Material Covenants

None

Liquidity Profile

The company's liquidity is adequate marked by moderate net cash accruals to its maturing debt obligations. The company has generated cash accruals of Rs. 36.14 crore in FY2019 to repay its long term debt obligations of Rs. 4.84 crore over the same period. The company's working capital is efficiently managed as evident from improvement in Gross Current Asset (GCA) to 62 days in FY2019 as compared to 81 days in FY2018. The current ratio stood at 1.99 times as on March 31, 2019 and the fund based limit remains utilised at 68 per cent over the twelve months ended May, 2019. The company maintains unencumbered cash and bank balances of Rs. 0.45 crore as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term in the absence of any significant debt funded capex.

Outlook: Stable

Acuité believes that the company will continue to benefit over the medium term from the promoters' vast experience in business and long track record of operation. The outlook may be revised to 'Positive' if the company achieves more than envisaged sales and profitability, while maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and profitability or weakening of the financial risk profile owing to higher

working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	368.82	186.89	97.17
EBITDA	Rs. Cr.	50.79	17.30	4.42
PAT	Rs. Cr.	33.94	6.16	0.72
EBITDA Margin	(%)	13.77	9.26	4.54
PAT Margin	(%)	9.20	3.30	0.74
ROCE	(%)	38.07	18.68	8.50
Total Debt/Tangible Net Worth	Times	0.70	0.45	0.52
PBDIT/Interest	Times	11.48	7.53	2.37
Total Debt/PBDIT	Times	1.27	1.49	5.89
Gross Current Assets (Days)	Days	62	81	178

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loans	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A-/Stable (Assigned)
Cash credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A-/Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A-/Stable (Assigned)
Cash credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE A-/Stable (Assigned)
Proposed Cash credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Assigned)

Contacts

Analytical	Rating Desk
Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-6620 1203 pooja.ghosh@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Priyanka Rathi Analyst - Rating Operations Tel: 033-6620-1210 priyanka.rathi@acuite.in	

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) for the latest information on any instrument rated by Acuité.