

Press Release

B S Sponge Private Limited

Jan 07, 2021



Rating Assigned & Reaffirmed

Total Bank Facilities Rated*	Rs. 115.00 Cr
Long Term Rating	ACUITE A-/ Stable (Assigned & Reaffirmed)
Short Term Rating	ACUITE A2+ (Assigned & Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has assigned & reaffirmed the long term rating of '**ACUITE A-**' (**read as ACUITE A minus**) and the short term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) on the Rs. 115.00 crore bank facilities of B S Sponge Private Limited (BSPL). The outlook is '**Stable**'.

Incorporated in 2000, B S Sponge Private Limited is a Chhattisgarh based company engaged in manufacturing of sponge iron, billets and TMT Bars. The company started manufacturing of sponge iron in 2004 and billets in July, 2019. Further, the company has forayed into forward integration into TMT bars and installed rolling mill with an installed capacity of 1,05,000 MT per annum in May, 2020. The steel plant is situated at Raigarh, Chhattisgarh with an installed capacity of about 1,80,000 MT per annum for sponge iron and 1,20,000 MT per annum for billets. Further, 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 this rating.

Key Rating Drivers

Strengths

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

The company has a long track record of over sixteen years in the sponge iron manufacturing industry. The company is promoted by Mr. Parmanand Agarwal who has business experience of around two decades in the steel industry. Currently, Mr. Ashish 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 the vast experience of the promoter has enabled the company to build strong relationship with customers as well as suppliers, resulting in continued order flow from customers.

- **Integrated steel player**

The company is an integrated steel player that manufactures sponge iron, MS Billets and TMT bars with an installed capacity of 1,80,000 MTPA, 1,20,000 MTPA and 1,05,000 MTPA, respectively. The company also owns a 12-MW power plant. The company produces sponge iron which is captively consumed to manufacture billets, which in turn is captively used to produce TMT bars. In addition the 12-MW captive power plant fulfils its power requirements. Thus, Acuité believes that the vertical integration in operations will lend considerable operational efficiency going forward. Further, apart from supporting the operating profitability, the backward integration will also ensure smooth in-house raw material availability.

- **Healthy scale of operations**

The company's revenues increased to Rs.382.45 crore in FY20 from Rs. 368.82 crores in FY19, marking a growth of 3.70 per cent. The rise in revenues is mainly on account of sale of billets from July, 2019 coupled with healthy production capacity in FY20. Moreover, the company has started selling TMT bars since May 2020 and achieved revenues of Rs. 284 crore till Nov,20 (provisional). Although the Covid lockdown has impacted the revenues in Q1FY21, the company is likely to witness growth in revenues in FY21 owing to addition of TMT bars in their product portfolio. Thus, Acuité believes that the company will continue to operate at a healthy scale and the growth in revenues will be further supported on account of commencement of sale of TMT bars.

- **Comfortable financial risk profile**

The financial risk profile of the company is marked by moderate net worth, comfortable gearing and debt protection metrics. The net worth of the company stood at Rs. 106.57 Cr. as on 31 March, 2020 as against Rs.92.42 Cr. as on 31st March, 2019. The gearing (debt-equity) deteriorated to 1.18 times in FY2020 as against 0.70 times in FY2019 on account of long term loan taken for rolling mill and power plant along with infusion of unsecured loan to the tune of Rs.14.58 Cr. in FY20. The total debt of Rs. 125.40 Cr. as on March 31, 2020 consists of long term borrowings of Rs.67.30 Cr., short term borrowings of Rs.29.38 Cr and unsecured loan of Rs.28.72 Cr. However, the interest coverage ratio (ICR) and debt service coverage ratio (DSCR) deteriorated to 4.45 times and 1.96 times in FY2020 as compared to 11.48 times and 9.12 times in FY2019 respectively on account of higher interest obligations due to rise in debt and fall in earnings. Though debt protection metrics deteriorated in FY2020, it still remained healthy. The NCA/TD stood at 0.15 times in FY2020. Acuité believes that the financial risk profile of the company will remain comfortable in the absence of any major debt funded capex plans in the medium term.

- **Prudent working capital operations**

The company's operations are efficiently managed, despite rise in Gross Current Asset (GCA) to 101 days in FY2020 as against 62 days in FY2019. The rise in GCA days is mainly on account of high inventory days of 77 in FY2020 as compared to 35 days in FY2019 as the company has maintained adequate stock of iron ore in order to ensure smooth production process. The debtor days stood at 7 days for FY2020 against 11 days in FY19. The lower working capital intensity is further reflected from the low utilization of ~ 70 per cent of its working capital facilities during the twelve months ended Oct,2020. Acuité believes that the company's ability to manage its working capital operations efficiently will be key rating sensitivity.

Weaknesses

- **Decline in profitability**

The profitability of the company has remained uneven during last three years (FY18-20). The company's operating margins fell to ~ 10.62 per cent in FY2020 as compared to 13.77 per cent in FY2019. The fall in profitability margins in FY20 are due to higher repairs and maintenance expenses on existing sponge iron unit and rise in consumable stores. Further, the company reported low Profit after Tax (PAT) margins of 3.70 per cent in FY2020 (Provisional) as against 9.20 per cent in the previous year. The decline in profitability coupled with higher interest obligations has resulted in lower cash accruals which stood at Rs. 18.30 crore in FY20 as against Rs. 36.14 crore in FY19. However, going forward, operating margins is expected to remain healthy on account of increased capacity utilization and higher operating efficiency due to integrated nature of operations.

• Presence in highly competitive and fragmented industry

The company is operating in competitive and fragmented nature of industry especially 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 of the company remains exposed to inherent cyclical in the steel industry and volatility in raw material prices.

Rating Sensitivity

- Growth in scale of operations while improving operating profitability
- Efficient working capital management
- Sustenance of liquidity profile

Material Covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by net cash accruals of Rs.18.30 crore (not considering deferred tax adjustment of Rs.8.27 crore) in FY2020 against long term debt obligations of Rs.12.00 crore. Further, the company's operations are efficiently managed marked by Gross Current Asset (GCA) of 101 days in FY2020 as against 62 days in FY2019. The current ratio stood at 1.99 times as on March 31, 2020. Moreover, the company has utilised ~ 70 per cent of its working capital facilities during the twelve months ended Oct,2020. The company maintained unencumbered cash and bank balances of Rs.3.48 crore as on March 31, 2020. The company had not availed moratorium during Mar 2020 to Aug 2020 and Covid loan. Going forward, Acuité believes that the company's liquidity to remain adequate owing to the increased cash accruals over the medium term.

Outlook: Stable

Acuité believes that the outlook of the company will remain stable over the medium term backed by its experienced management and integrated nature of operations. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in revenues while achieving improvement in operating margins and efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or further deterioration in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	382.45	368.82
PAT	Rs. Cr.	14.15	33.94
PAT Margin	(%)	3.70	9.20
Total Debt/Tangible Net Worth	Times	0.70	0.70
PBDIT/Interest	Times	4.45	11.48

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
24-Dec-2020	Cash Credit	Long Term	10.00	ACUITE A-/Stable (Reaffirmed)
	Term Loans	Long Term	15.84	ACUITE A-/Stable (Reaffirmed)
	Term Loans	Long Term	17.16	ACUITE A-/Stable (Reaffirmed)
	Letter of Credit	Long Term	5.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	30.00	A-/Stable (Reaffirmed)
17-Oct-2019	Term Loans	Long Term	24.00	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE A-/Stable (Assigned)
	Term Loans	Long Term	6.00	ACUITE A-/Stable (Assigned)

Cash Credit	Short Term	22.00	ACUITE A-/Stable (Assigned)
Proposed Cash Credit	Long Term	16.00	ACUITE A-/Stable (Assigned)
Letter of Credit	Short Term	5.00	ACUITE A2+ (Assigned)
Bank Guarantee	Short Term	2.00	ACUITE A2+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Name of the Bank	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	HDFC Bank	ACUITE A-/Stable (Reaffirmed)
Term Loans	Dec,2019	9.00	Dec,2025	42.25	HDFC Bank	ACUITE A-/Stable (Reaffirmed)
Term Loans	Nov,2019	10.40	June,2027	18.16	Allahabad Bank	ACUITE A-/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.00	Allahabad Bank	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	Allahabad Bank	ACUITE A2+ (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	Allahabad Bank	A-/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	HDFC Bank	ACUITE A2+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	HDFC Bank	ACUITE A2+ (Assigned)
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	0.59	Proposed	ACUITE A-/Stable (Assigned)

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