

Press Release

B S Sponge Private Limited

February 07, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	233.33	ACUITE A- Stable Assigned	-
Bank Loan Ratings	101.00	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	34.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	368.33	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has 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. 135.00 crore bank facilities of B S Sponge Private Limited (BSPL). Acuite has also assigned the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 233.33 crore bank facilities of B S Sponge Private Limited (BSPL). The outlook is '**Stable**'.

The rating reflects the strong operational performance along with an improving financial risk profile. The company has registered a strong revenue growth in FY21 driven by the rise in average realization of both finished and intermediate products. The rating also factors in the company's healthy financial risk profile marked by high net worth and conservative capital structure. These rating strengths are partially offset by cyclical nature of the steel industry. In addition, the company has also undertaken a debt funded capital expenditure program which is expected to lead to a slight moderation in their debt coverage and leverage indicators in the near term.

About the Company

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. The company has also installed an in-house captive power plant of 22 MW. The company is promoted by Mr. Parmanand Agarwal and his son Mr. Ashish Agarwal.

Analytical Approach

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

Key Rating Drivers

Strengths

Integrated operation in steel sector and healthy scale of operation

The company is promoted by the Agrawal family of Raigarh (Chhattisgarh). The company is managed by Mr. Parmanand Agarwal, who has two decades of experience in the steel business. The company has integrated operations with capacities to produce sponge iron, steel billets and TMT Bars. The installed capacity of the company is 180,000 MT of sponge iron, 120,000 MT of billets and 105,000 MT of TMT bars. The scale of operation of the company had witnessed an improvement as reflected from its revenue of Rs 508.14 Cr in FY21 as against Rs 382.45 Cr in FY20. This significant rise in revenue is on account of sale of TMT from May 2020 coupled with increase in MS billet capacity utilization during FY2021. Further, the revenue of the company has also increased due to increase in average realisation of MS billet and sponge iron during FY21. Moreover, the company has reported a turnover of around Rs.410.00 crore till November 2021 (Prov.). Acuité believes the scale of operation will improve over medium term backed steady growth in demand of iron and steel in domestic market.

Healthy profitability margin

The profitability margin of the company has increased and stood healthy at 13.03 per cent in FY2021 as compared to 10.62 per cent in the previous year. This improvement in operating profitability margin is on account of decrease in raw material price during the period. Further, the operating profitability margin of the company has declined in FY2020 to 10.62 per cent from 13.77 percent in FY2019 mainly due higher repairs and maintenance expenses during the period. Going forward Acuité believes, operating margins is expected to remain healthy on account of increased capacity utilization and higher operating efficiency due to integrated nature of operations.

Healthy financial risk profile

The financial risk profile of the company is marked by healthy net worth, comfortable gearing and strong debt protection metrics. The net worth of the company stood healthy at Rs.135.14 crore in FY 2021 as compared to Rs 106.57 crore in FY2020. This improvement in networth is mainly due to the retention of current year profit. The gearing of the company stood comfortable at 1.05 times as on March 31, 2021 when compared to 1.18 times as on March 31, 2020. The total debt of Rs.142.66 crore is consists of long term debt of Rs.76.58 crore, short term debt of Rs.36.26 crore and unsecured loan from bodies corporates of Rs.29.81 crore in FY2021. Interest coverage ratio (ICR) is strong and stood 5.50 times in FY2021 as against 4.45 times in FY 2020. The debt service coverage ratio (DSCR) of the company also stood comfortable at 2.24 times in FY2021 as compared to 1.96 times in the previous year. The net cash accruals to total debt (NCA/TD) stood healthy at 0.30 times in FY2021 as compared to 0.15 times in the previous year. Going forward, Acuité believes the financial risk profile of the company will remain healthy on account of steady net cash accruals over the near term.

Efficient working capital management

The comfortable working capital intensive nature of the company is marked by gross current asset days of 99 days in FY2021 as compared to 101 days in the previous year. The inventory days of the company stood moderate at 66 days in FY2021 as compared to 77 days in the previous year. The debtor days of the company has stood comfortable at 04 days in FY2021 as compared to 07 days in the previous year. Going forward, Acuité believes the working capital intensity will remain at similar levels over the medium term.

Weaknesses

Debt funded capex plan

The company has installed a strip mill at the same location with an installed capacity of 165,000 MTPA. The total project cost would be Rs. 30.00 crore funded through bank loan of Rs.20.00 crore and internal accruals of Rs.10.00 crore. The project has been started and company has already expended of Rs.18.00 crore towards this project. The company is going to complete this capex in March 2022 and expects to start the commercial production from April 2022. Further, the company is also going to increase their sponge iron manufacturing capacity by 165000 MTPA. The total project cost would be Rs.80.00 crore funded through

bank loan of Rs.62.00 crore and rest is from internal accruals. The company is expected to complete this project by June 2023 and expected to start its commercial operation from July 2023 onwards.

Intense competition and inherent cyclicality in the steel 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 and sales of the company remains exposed to inherent cyclicality in the steel industry.

Rating Sensitivities

- Growth in scale of operations while maintaining operating profitability
- Working capital management
- Timely completion of debt funded capex

Material covenants

None

Liquidity Position: Adequate

The company has adequate liquidity marked by comfortable net cash accruals of Rs.41.89 crore as against Rs.12.00 crore long term debt obligations in FY2021. The cash accruals of the company are estimated to remain in the range of around Rs. 61.06 crore to Rs. 82.20 crore during 2022-23 as against Rs. 12.00 crore FY2022 and in Rs. 16 .00 crore in FY2023 respectively of long term debt obligations. The current ratio of the company stood comfortable at 2.11 times in FY2021. The working capital management of the company is marked by Gross Current Asset (GCA) days of 99 days in FY2021. The bank limit of the company has been ~53 percent utilized during the last six months ended in December 2021. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of comfortable cash accruals against long debt repayments 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	508.14	382.45
PAT	Rs. Cr.	35.78	14.15
PAT Margin	(%)	7.04	3.70
Total Debt/Tangible Net Worth	Times	1.06	1.21
PBDIT/Interest	Times	5.50	4.45

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Jan 2022	Letter of Credit	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	3.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	33.25	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	7.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	14.65	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	43.10	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Reaffirmed)
07 Jan 2021	Cash Credit	Long Term	30.00	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A2+ (Assigned)
	Proposed Bank Facility	Long Term	0.59	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	42.25	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	18.16	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	3.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	7.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.00	ACUITE A2+ (Reaffirmed)
24 Dec 2020	Bank Guarantee	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	15.84	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	17.16	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	22.00	ACUITE A- Stable (Assigned)
		Long		ACUITE A- Stable

17 Oct 2019	Cash Credit	Term	5.00	(Assigned)
	Term Loan	Long Term	6.00	ACUITE A- Stable (Assigned)
	Proposed Cash Credit	Long Term	16.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	24.00	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A2+ Reaffirmed
Indian Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A2+ Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A- Stable Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	43.10	ACUITE A- Stable Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.90	ACUITE A- Stable Assigned
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A2+ Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A2+ Reaffirmed
Proposed Bank Facility	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	90.00	ACUITE A- Stable Assigned
Proposed Bank Facility	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	90.00	ACUITE A- Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	31-12-2019	9.00	31-12-2025	33.25	ACUITE A- Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	30-11-2019	10.40	30-06-2027	14.65	ACUITE A- Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	30-11-2019	10.40	30-06-2027	0.21	ACUITE A- Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	31-12-2019	9.00	31-12-2025	27.75	ACUITE A- Stable Assigned
HDFC Bank Ltd	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	10.00	ACUITE A- Stable Assigned
Indian Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	8.47	ACUITE A- Stable Assigned

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About Acuité Ratings & Research

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