

Press Release

B S Sponge Private Limited

March 31, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	160.00	ACUITE A- Stable Assigned	-
Bank Loan Ratings	326.78	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	7.45	-	ACUITE A2+ Assigned
Bank Loan Ratings	41.55	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	535.78	-	-

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. 368.33 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**) and the short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 167.45 crore bank facilities of B S Sponge Private Limited (BSPL). The outlook is '**Stable**'.

Rating Rationale

The rating continues to reflect the sound business profile of the company marked by its long operational track record along with integrated nature of operation. The company had registered strong operational performance during FY22 and H12023 driven by rise in sale volume and average realization of steel products. The rating also considers the company's comfortable financial risk profile marked by healthy net worth, sound debt protection metrics and modest leverage ratios. The company has high debt funded capex plans over the medium term. The ratings are further constrained by intense competition and inherent cyclicity in the steel industry and moderation in operating performance during H2FY2023 on account of rise in steel prices.

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

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

Key Rating Drivers

Strengths

Integrated operation with long track record and experienced promoters

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 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. The company has integrated operations with capacities to produce sponge iron, 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 respectively. In the current fiscal, the company has commissioned 165,000 MT of sponge iron capacity. The company has undertaken capex plan to enhance existing capacities. The project cost of ongoing capex is around Rs 104 Cr which will be funded through a mix of debt and equity in 1.90:1 ratio. The expansion capex will enhance the existing sponge iron capacity by 165000 MTPA. The project is expected to complete by Q2FY24.

Healthy scale of operation coupled with stable profitability margin

The revenue of the company witnessed a 34.42 per cent growth in FY2022, its revenue increased to Rs.683.06 crore in FY2022 as compared to Rs.508.14 crore in the previous year. This growth of the revenue is majorly due to increase in average realization per unit during FY2022 backed by steady demand for billet, rolled products. Further, the average realization of the rolled product has also improved during the 1st half of FY2023, however, the realization for rolled product has moderated globally from the second half of the current fiscal, which may lead to an overall sluggish growth in the revenue during FY2023. The company has booked around Rs.385 crore of sales till 30th Sept 2022 (Prov.).

The operating profitability margin of the company stood healthy at 13.04 per cent in FY2022 and 13.03 per cent in the previous year. The profitability margin of the company is stagnant on account of increase in raw material cost during the period, which further led to increase the realisation per unit during FY2022. Going forward, Acuité believes, that the profitability margin of the company will increase and sustain at healthy levels over the medium term backed by steady demand, stable realization, and integrated nature of plant. The operating profitability margin has further increased and stood healthy at 14.16 per cent during 6MFY2023. The net profitability margin of the company stood healthy at 6.57 per cent in FY2022 as compared to 7.04 per cent in the previous year.

Above average financial risk profile

The financial risk profile of the company is marked by healthy net worth, modest gearing and strong debt protection metrics. The net worth of the company stood healthy at Rs.179.99 crore in FY 2022 as compared to Rs 134.47 crore in FY2021. This improvement in network is mainly due to the retention of current year profit. The gearing of the company stood at 1.17 times as on March 31, 2022 when compared to 1.06 times as on March 31, 2021. This further increase in gearing is mainly on account of increase in long-term debt and short-term debt during the period. Interest coverage ratio (ICR) is strong and stood at 7.54 times in FY2022 as against 5.50 times in FY2021. The debt service coverage ratio (DSCR) of the company also stood strong at 3.17 times in FY2022 as compared to 2.24 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.30 times in FY2022 as compared to 0.29 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 despite of on-going debt funded capex by the company.

Moderate working capital management

The operation of the company is moderate working capital intensive marked by moderate

gross current asset (GCA) days of 106 days in FY2022 as compared to 99 days in the previous year. Moreover, the inventory days of the company has improved and stood moderate at 47 days in FY2022 as compared to 66 days in the previous year. The debtor days of the company has stood comfortable at 04 days in FY2022 and in the previous year respectively. The overall GCA days of the company has slightly increased on account of increase in other current assets during FY2022, which mainly consisting of advance to suppliers and advance tax paid during the period. Going forward, Acuité believes the working capital intensity will remain at similar levels over the medium term.

Weaknesses

Continuous debt funded capex plan

The company is planning to increase its sponge iron capacity by another 165000 MTPA along with billet unit by 99000 MTPA, power plant with 20 MW and going to install a new unit for ferro alloys with the installed capacity of 15000 MTPA at the same location. The total project cost would be around Rs.242 crore funded through bank loans of Rs.160 crore and internal accrual of Rs.82 crore. The company has already expended Rs.87 crore till date towards this project through the internal accruals. The company has already tied-up with bank for the bank loan and expected to complete this project by March 2024 and start the commercial operations from April 2024 onwards. This will help the company to enhance its overall business risk profile by improvement in top-line and bottom-line respectively. Acuité believes the coverage and leverage ratios of the group will witness slight moderation over the medium term because of the rise in the debt levels.

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.

ESG Factors Relevant for Rating

Environment

Manufacture of metals has a substantial environmental impact. The production of basic metals is extremely power-intensive. Most steel is still produced with blast furnaces, releasing large amounts of carbon dioxide, nitrogen oxide, and particulate matters into the air. Moreover, improper waste disposal could lead to releasing toxic fluids in the surroundings having devastating effects. Other issues include efficient water utilization and managing water pollution.

Social

Occupation and workforce health & safety management are of primary importance to this industry given the dangerous nature of operations. Furthermore, community relations, inclusive development and human rights concerns are crucial factors considering the exploitative industry practices. Additionally, quality of the product is of utmost significance for this industry.

Governance

Factors such as ethical business practices, management compensation and board administration hold primary importance within this industry. Likewise, regulatory compliance, shareholder's rights and audit control are other material issues to the industry. Long-term business continuity is key, as it ensures alignment between stockholders and stakeholders.

Rating Sensitivities

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

Material covenants

None

Liquidity Position Adequate

The company has adequate liquidity marked by comfortable net cash accruals of Rs.63.77 crore as against Rs.21.91 crore long term debt obligations in FY2022. The cash accruals of the company are estimated to remain in the range of around Rs. 79.89 crore to Rs. 99.58 crore during 2022-23 as against Rs. 23.72 crore FY2023 and in Rs. 31.48 crore in FY2024 respectively of long term debt obligations. The current ratio of the company stood comfortable at 1.63 times in FY2022. The moderate working capital intensive nature of the company is marked by moderate Gross Current Asset (GCA) days of 106 days in FY2022. The bank limit of the company has been ~46 percent utilized during the last six months ended in November 2022. 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 or liquidity position due to any significant time or cost overruns in their planned or unplanned capital expenditure.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	683.06	508.14
PAT	Rs. Cr.	44.84	35.78
PAT Margin	(%)	6.57	7.04
Total Debt/Tangible Net Worth	Times	1.17	1.06
PBDIT/Interest	Times	7.54	5.50

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 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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Feb 2023	Cash Credit	Long Term	28.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	32.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	73.10	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	6.90	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	3.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	12.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	17.00	ACUITE A2+ (Reaffirmed)
	Proposed Bank Facility	Long Term	7.55	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	25.85	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	0.21	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	68.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	12.23	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	22.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	27.75	ACUITE A- Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	6.93	ACUITE A- Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	13.81	ACUITE A- Stable (Reaffirmed)
07 Feb	Cash Credit	Long Term	10.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	6.90	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	43.10	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	3.00	ACUITE A2+ (Reaffirmed)
	Proposed Cash Credit	Long Term	90.00	ACUITE A- Stable (Assigned)
	Proposed Term Loan	Long Term	90.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	14.65	ACUITE A- Stable (Reaffirmed)

2022		Long		ACUITE A- Stable
	Term Loan	Term	0.21	(Assigned)
	Term Loan	Long Term	33.25	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	27.75	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	12.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	17.00	ACUITE A2+ (Reaffirmed)
	Working Capital Demand Loan	Long Term	8.47	ACUITE A- Stable (Assigned)
	Working Capital Demand Loan	Long Term	10.00	ACUITE A- Stable (Assigned)
29 Jan 2022	Letter of Credit	Short Term	10.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	7.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	14.65	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	33.25	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	3.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	43.10	ACUITE A- Stable (Reaffirmed)
07 Jan 2021	Cash Credit	Long Term	30.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	42.25	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	18.16	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.59	ACUITE A- Stable (Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	7.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Reaffirmed)

24 Dec 2020	Cash Credit	Long Term	30.00	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	15.84	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	17.16	ACUITE A- Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A2+ Reaffirmed
Indian Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A2+ Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A- Stable Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	73.10	ACUITE A- Stable Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.90	ACUITE A- Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	32.00	ACUITE A- Stable Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	28.00	ACUITE A- Stable Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.55	ACUITE A2+ Reaffirmed
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	17.00	ACUITE A2+ Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE A2+ Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.45	ACUITE A2+ Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	25.85	ACUITE A- Stable Reaffirmed
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	22.00	ACUITE A- Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	68.00	ACUITE A- Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	30 Nov 2019	10.40	30 Jun 2027	Simple	12.23	ACUITE A- Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	30 Nov 2019	10.40	30 Jun 2027	Simple	0.21	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	31 Dec 2019	9.00	31 Dec 2025	Simple	27.75	ACUITE A- Stable Reaffirmed

HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	70.00	ACUITE A- Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	90.00	ACUITE A- Stable Assigned
HDFC Bank Ltd	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	13.81	ACUITE A- Stable Reaffirmed
Indian Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	6.93	ACUITE A- Stable Reaffirmed

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