

## Press Release

**B S SPONGE PRIVATE LIMITED**

**May 17, 2024**

### Rating Assigned and Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term
Bank Loan Ratings	61.00	ACUITE A   Stable   Assigned	-
Bank Loan Ratings	486.78	ACUITE A   Stable   Upgraded	-
Bank Loan Ratings	81.00	-	ACUITE A1   Assigned
Bank Loan Ratings	49.00	-	ACUITE A1   Upgraded
Total Outstanding Quantum (Rs. Cr)	677.78	-	-

### Rating Rationale

Acuite has upgraded the long-term rating to 'ACUITE A' (read as ACUITE A) from 'ACUITE A-' (read as ACUITE A minus) and the short-term rating to 'ACUITE A1' (read as ACUITE A One) from 'ACUITE A2+' (read as ACUITE A two plus) on the Rs. 535.78 crore bank facilities of B S Sponge Private Limited (BSPL). The outlook is 'Stable'.

Acuite has also assigned the long-term rating of 'ACUITE A' (read as ACUITE A) and the short-term rating of 'ACUITE A1' (read as ACUITE A One) on the Rs. 142.00 crore bank facilities of B S Sponge Private Limited (BSPL). The outlook is 'Stable'.

### Rationale for Rating

The rating upgrade takes into account the augmentation in the revenue profile of the company to Rs. 812.46 Cr. in FY2023 and further to Rs. 1494 Cr. in FY2024 (provisional) from Rs. 682.96 Cr. in FY2022. The company's profitability has improved and continues to remain healthy with EBDITA of 20.02% in FY2023 and 18.54% in FY2024 (provisional) as against 13.03% in FY2022. The ratings take note of the sound business profile of the company marked by its long operational track record along with integrated nature of operation. 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 ratings are however, constrained by intense competition and inherent cyclicity in the steel industry.

### About the Company

Incorporated in 2000, B S Sponge Private Limited is a Chhattisgarh based company engaged in manufacturing of sponge iron, billets, TMT Bars, strips and ferro alloys. The company has been expanding its capacity over the past couple of years and currently, the company has an installed capacity of 5,10,000 MTPA for production of sponge iron, 2,19,000 MTPA for billets, 2,70,000 MTPA of rolling mill and 15,000 MTPA for production of ferro alloys. Additionally, it operates an in-house captive power plant of 42 MW. The company is promoted by Mr. Parmanand Agarwal and his son Mr. Ashish Agarwal.

### Unsupported Rating

Not Applicable

### 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 played a pivotal role in the company's ability to cultivate robust relationships with both its customers and suppliers. This has resulted in a sustained performance of the company over the years.

#### **Healthy scale of operation coupled with healthy profitability margin**

The revenue of the company witnessed a 19% growth in FY2023 to Rs. 812.46 crore in FY2023 as compared to Rs. 682.96 crore in the previous year. Further, in FY2024, the company has reported operating income of Rs. 1494 Cr. (provisional) majorly on account of augmentation in the capacity for various products and increased sales volume despite a decline in the average sales realization. The EBITDA margin of the company has improved to 20.02% in FY2023 from 13.03% in FY2022. In FY2024 the operating profit margin stood comfortable at 18.54% (provisional). Going forward, Acuite believes, that the profitability margin of the company will improve and sustained at healthy levels over the medium term backed by steady demand, stable realization, and integrated nature of plant. In line with the improvement in the EBDITA margin, the PAT margin improved to 8.36% in FY23 compared to 6.57% in FY2022.

#### **Above average financial risk profile**

The financial risk profile of the company is marked by healthy net worth, modest gearing and healthy debt protection metrics. The net worth of the company stood healthy and improved to Rs. 247.19 crore in FY2023 as compared to Rs. 179.99 crore in FY2022. This improvement in net worth is mainly due to the healthy accretions to the reserves. The gearing of the company stood at 1.48 times as on March 31, 2023 when compared to 1.17 times as on March 31, 2022. This further increase in gearing is mainly on account of the additional debt to fund the capex. The coverage indicators stood strong as reflected by Interest coverage ratio (ICR) of 7.66 times in FY2023 as against 7.54 times in FY2022 and the debt service coverage ratio (DSCR) of 2.78 times in FY2023 as compared to 3.17 times in FY2022. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.27 times in FY2023 as compared to 0.30 times in the previous year. Going forward, Acuite believes the financial risk profile of the company will remain healthy on account of steady net cash accruals and no debt funded capex plans in the near to medium term.

#### **Moderate Working capital management**

The operation of the company are moderate working capital intensive marked by moderate gross current asset days of 113 days in FY2023 as compared to 106 days in the previous year. Moreover, the inventory days of the company increased to at 81 days in FY2023 as compared to 47 days in the previous year. The debtor days stood at 09 days in FY2023 as compared to 04 days in the previous year respectively.

### Weaknesses

#### **Intense competition and inherent cyclicity 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 cyclicity 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 and improvement in the overall credit profile.
- Any debt funded capex or increase in the working capital intensity resulting in increase in the debt and further impacting the overall credit profile.

### **Liquidity Position**

#### **Adequate**

The company has adequate liquidity marked by comfortable net cash accruals of Rs.98.79 crore as against Rs.21.91 crore debt obligations in FY2023. Further, the company has free cash and bank balances (including unencumbered FDs) of Rs. 2.36 Cr. as on March 31, 2023. The current ratio of the company stood comfortable at 1.43 times in FY2023 against 1.63 times in FY22. The moderate working capital intensive nature of the company is marked by moderate Gross Current Asset (GCA) days of 113 days in FY2023. The average fund based working capital utilization stood around 73.5% in last six months ended March 2024. 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.

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	812.46	682.96
PAT	Rs. Cr.	67.89	44.85
PAT Margin	(%)	8.36	6.57
Total Debt/Tangible Net Worth	Times	1.48	1.17
PBDIT/Interest	Times	7.66	7.54

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

Not applicable

### Any other information

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.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. Acuité'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](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
31 Mar 2023	Bank Guarantee (BLR)	Short Term	3.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	73.10	ACUITE A-   Stable (Reaffirmed)
	Cash Credit	Long Term	6.90	ACUITE A-   Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A-   Stable (Reaffirmed)
	Cash Credit	Long Term	32.00	ACUITE A-   Stable (Reaffirmed)
	Cash Credit	Long Term	28.00	ACUITE A-   Stable (Reaffirmed)
	Letter of Credit	Short Term	17.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	12.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	7.55	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	7.45	ACUITE A2+ (Assigned)
	Term Loan	Long Term	27.75	ACUITE A-   Stable (Reaffirmed)
	Term Loan	Long Term	25.85	ACUITE A-   Stable (Reaffirmed)
	Term Loan	Long Term	22.00	ACUITE A-   Stable (Reaffirmed)
	Term Loan	Long Term	68.00	ACUITE A-   Stable (Reaffirmed)
	Term Loan	Long Term	70.00	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	90.00	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	12.23	ACUITE A-   Stable (Reaffirmed)
	Term Loan	Long Term	0.21	ACUITE A-   Stable (Reaffirmed)
	Working Capital Demand Loan (WCDL)	Long Term	13.81	ACUITE A-   Stable (Reaffirmed)
	Working Capital Demand Loan (WCDL)	Long Term	6.93	ACUITE A-   Stable (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	3.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A-   Stable (Reaffirmed)
	Cash Credit	Long Term	6.90	ACUITE A-   Stable (Reaffirmed)
	Cash Credit	Long Term	73.10	ACUITE A-   Stable (Reaffirmed)
		Long		ACUITE A-   Stable

01 Feb 2023	Cash Credit	Term	28.00	(Reaffirmed)
	Cash Credit	Long Term	32.00	ACUITE A-   Stable (Reaffirmed)
	Letter of Credit	Short Term	12.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	17.00	ACUITE A2+ (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	7.55	ACUITE A-   Stable (Reaffirmed)
	Term Loan	Long Term	22.00	ACUITE A-   Stable (Reaffirmed)
	Term Loan	Long Term	25.85	ACUITE A-   Stable (Reaffirmed)
	Term Loan	Long Term	27.75	ACUITE A-   Stable (Reaffirmed)
	Term Loan	Long Term	0.21	ACUITE A-   Stable (Reaffirmed)
	Term Loan	Long Term	12.23	ACUITE A-   Stable (Reaffirmed)
	Term Loan	Long Term	68.00	ACUITE A-   Stable (Reaffirmed)
	Working Capital Demand Loan (WCDL)	Long Term	6.93	ACUITE A-   Stable (Reaffirmed)
	Working Capital Demand Loan (WCDL)	Long Term	13.81	ACUITE A-   Stable (Reaffirmed)
07 Feb 2022	Bank Guarantee (BLR)	Short Term	3.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	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)
	Letter of Credit	Short Term	12.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	17.00	ACUITE A2+ (Reaffirmed)
	Proposed Cash Credit	Long Term	90.00	ACUITE A-   Stable (Assigned)
	Proposed Long Term Loan	Long Term	90.00	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	0.21	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	14.65	ACUITE A-   Stable (Reaffirmed)
	Term Loan	Long Term	27.75	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	33.25	ACUITE A-   Stable (Reaffirmed)
	Working Capital Demand Loan (WCDL)	Long Term	8.47	ACUITE A-   Stable (Assigned)
	Working Capital Demand Loan (WCDL)	Long Term	10.00	ACUITE A-   Stable (Assigned)
	Bank Guarantee (BLR)	Short Term	3.00	ACUITE A2+ (Reaffirmed)

29 Jan 2022	Bank Guarantee/Letter of 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)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	7.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	33.25	ACUITE A-   Stable (Reaffirmed)
	Term Loan	Long Term	14.65	ACUITE A-   Stable (Reaffirmed)
07 Jan 2021	Bank Guarantee (BLR)	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	3.00	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	10.00	ACUITE A-   Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE A-   Stable (Reaffirmed)
	Letter of Credit	Short Term	7.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A2+ (Assigned)
	Proposed Long Term 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)

## 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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.00	ACUITE A1   Upgraded ( from ACUITE A2+ )
State Bank of India	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	9.00	ACUITE A1   Assigned
Indian Bank	Not avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.00	ACUITE A1   Upgraded ( from ACUITE A2+ )
Indian Bank	Not avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	6.00	ACUITE A1   Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	40.00	ACUITE A   Stable   Upgraded ( from ACUITE A- )
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	32.00	ACUITE A   Stable   Upgraded ( from ACUITE A- )
Axis Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	28.00	ACUITE A   Stable   Upgraded ( from ACUITE A- )
Indian Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	73.10	ACUITE A   Stable   Upgraded ( from ACUITE A- )
Indian Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	6.90	ACUITE A   Stable   Upgraded ( from ACUITE A- )
Indian Bank	Not avl. / Not	Cash Credit	Not avl. / Not appl.	Not avl. / Not	Not avl. / Not	Simple	20.00	ACUITE A   Stable

	appl.			appl.	appl.			Assigned
State Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	7.45	ACUITE A1   Upgraded ( from ACUITE A2+ )
State Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	7.55	ACUITE A1   Upgraded ( from ACUITE A2+ )
HDFC Bank Ltd	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	12.00	ACUITE A1   Upgraded ( from ACUITE A2+ )
Indian Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	17.00	ACUITE A1   Upgraded ( from ACUITE A2+ )
Indian Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.00	ACUITE A1   Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE A1   Assigned
State Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	21.00	ACUITE A1   Assigned
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.13	ACUITE A   Stable   Upgraded ( from ACUITE A- )
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	28.60	ACUITE A   Stable   Assigned
State Bank of India	Not avl. / Not appl.	Stand By Line of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	11.00	ACUITE A   Stable   Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	30 Nov 2021	Not avl. / Not appl.	31 Dec 2029	Simple	25.90	ACUITE A   Stable   Upgraded ( from ACUITE A- )

Indian Bank	Not avl. / Not appl.	Term Loan	31 Jul 2017	Not avl. / Not appl.	31 Dec 2025	Simple	0.21	ACUITE A   Stable   Upgraded ( from ACUITE A- )
Indian Bank	Not avl. / Not appl.	Term Loan	30 Nov 2019	Not avl. / Not appl.	30 Jun 2027	Simple	7.00	ACUITE A   Stable   Upgraded ( from ACUITE A- )
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	31 Jan 2023	Not avl. / Not appl.	30 Sep 2032	Simple	70.00	ACUITE A   Stable   Upgraded ( from ACUITE A- )
State Bank of India	Not avl. / Not appl.	Term Loan	31 Jan 2023	Not avl. / Not appl.	30 Sep 2032	Simple	90.00	ACUITE A   Stable   Upgraded ( from ACUITE A- )
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	31 Dec 2019	Not avl. / Not appl.	31 Dec 2025	Simple	13.00	ACUITE A   Stable   Upgraded ( from ACUITE A- )
Axis Bank	Not avl. / Not appl.	Term Loan	28 Feb 2022	Not avl. / Not appl.	31 Jul 2030	Simple	17.87	ACUITE A   Stable   Upgraded ( from ACUITE A- )
Indian Bank	Not avl. / Not appl.	Term Loan	31 May 2022	Not avl. / Not appl.	31 Dec 2031	Simple	68.00	ACUITE A   Stable   Upgraded ( from ACUITE A- )
Indian Bank	Not avl. / Not appl.	Term Loan	31 Jul 2017	Not avl. / Not appl.	31 Dec 2025	Simple	1.40	ACUITE A   Stable   Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Working Capital Demand Loan (WC DL)	31 Dec 2020	Not avl. / Not appl.	31 Mar 2028	Simple	10.48	ACUITE A   Stable   Upgraded ( from ACUITE A- )
Indian Bank	Not avl. / Not appl.	Working Capital Demand Loan (WC DL)	31 Jan 2021	Not avl. / Not appl.	31 Jan 2026	Simple	4.19	ACUITE A   Stable   Upgraded ( from ACUITE A- )

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### About Acuité Ratings & Research

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