Press Release

Captain Steel India Limited (Erstwhile BMA Stainless Limited)

February'27 2020

Rating Upgraded

Total Bank Facilities Rated*	Rs. 200.00 Cr.
Long Term Rating	ACUITE A+/Stable (Upgraded from ACUITE A/Stable)
Short Term Rating	ACUITE A1+ (Upgrade from ACUITE A1)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long term rating to **'ACUITE A+' (read as ACUITE A plus)** from 'ACUITE A (read as ACUITE A) and the short term rating to **'ACUITE A1+ (read as ACUITE A one plus)** from 'ACUITE A1 (read as ACUITE A one) from the Rs.200.00 crore of bank facilities of Captain Steel India Limited (CSIL). The outlook is **'Stable'**.

The upgrade is mainly backed by significant improvement in the business risk profile of the company coupled with sustenance of the strong financial risk profile. The company has witnessed a steep rise in the turnover levels of the company which has increased from Rs. 731 crore in FY2018 to Rs. 1209 crore in FY2019 thus registering a y-o-y growth of 65 percent. Further, during the current financial year, the company has booked revenue of Rs.1018.50 crore till January, 2020 (Provisional). The profitability metrics have shown an improving trend in the past 3 years where the operating margin of the company has improved from 4.73 percent in FY2017 to 10.39 percent in FY2019. CSIL's operating margins have further improved to 11.9 per cent till January'2020 (Provisional). The PAT margins have improved in line with the operating margins from 2.18 percent in FY2017 to 5.67 percent in FY2019. Sharp increase in topline along with profitability levels has translated into substantial improvement in the cash accruals of CSIL. Cash accruals have increased to Rs. 72.38 crore in FY2019 from Rs. 13.56 crore in FY2017. Strong accruals have led to improvement in networth, minimal reliance on external borrowings and improved debt protection measures.

Captain Steels India Limited (Erstwhile BMA Stainless Limited) was established as a Kolkata based company in the year 2003. It is engaged in the manufacturing of MS Billets and TMT bars and has an installed capacity of 207360 MTPA and 249630 MTPA respectively.. The company sells TMT bars under the brand name "Captain". Currently the company is managed by Mr. Avinash Agarwalla, Mr. Vijay Gupta and Mr. Sanjay Gupta.

Further, CSIL in Oct'17 has entered into an agreement with JMD Alloys Limited (a Patna based company) having a production capacity of 1,80,500 MT per annum for TMT bars for exclusive conversion of the billets to TMT Bars which conforms to the 600 EQR of the "Captain TMT" under the different sizes and specifications mentioned by CSIL.

Analytical Approach:

Acuité has considered the standalone business and financial risk profile of the company.

Key Rating Drivers:

Strengths

Experienced management and long track record of operation

CSIL was established in the year 2003 by Mr Avinash Agarwalla. He has almost two decades of experience in the steel industry. Over the years, the company has been able to establish a strong brand 'Captain' and penetrate into states such as Bihar, Jharkhand, parts of Uttar Pradesh apart from West Bengal. Acuité believes that CSIL will continue to benefit from long experience of the management in establishing relations with their key suppliers and customers.

Robust financial risk profile
The robust financial risk profile of the company is marked by healthy net worth, low gearing and strong debt protection metrics. The net worth of the company stands healthy at Rs.171.09 crore in FY2019 as compared to Rs.102.48 crore in FY2018. This improvement in Networth is mainly due to retention of current year profit. The gearing of the company stands low at 0.40 times as on March 31, 2019 when compared to 0.88 times as on March 31, 2018. The total debt of Rs 68.30 crore in FY2019 consists of short term loan of Rs.61.76 crore, and long term debt of Rs.6.53 crore. Interest coverage ratio (ICR) is strong and stands at 8.99 times in FY2019 as against 5.36 times in FY 2018. The debt service coverage ratio also stands comfortable at 5.14 times in FY2019 as against of 3.24 times in FY2018. The net cash accruals to total debt (NCA/TD) stand healthy at 1.06 times in FY2019 as compared to 0.35 times in the previous year. The company has expansion plans in their billet manufacturing capacity but is in nascent stages. However, the capex is expected to be funded from internal generation. Acuite believes going forward the financial risk profile of the company will be sustained at strong levels over the medium term backed by consistent improving cash accruals and moderate capex plans.

Healthy revenue growth
CSIL witnessed a 65.46 per cent revenue growth in FY2019, its revenue increased from Rs 730.93 crore in FY2018 to Rs 1209.41 crore in FY2019. The improvement in turnover levels of the company has been mainly due to increase in the average realization of TMT bars Rs.47,474 per ton in FY2019 as compared to Rs.40,861 per ton in the previous year. However, the realization per unit has hovered around Rs. 44,000 in the current fiscal which would lead to flattish revenue growth in the current financial year. The company has undertaken a capacity expansion in both their billet and TMT unit in September'19 where the capacities have increased from 120,000 MTPA in billet to 207,360 MTPA and the rolling mill capacities have gone up from 162,000 MTPA to 249,360 MTPA. The enhanced capacities are expected to boost the topline of the company over the medium term.

Efficient working capital management
The efficient working capital management of the company is marked by gross current asset (GCA) days of 54 in FY2019 as compared to 78 days in FY2018. The debtor days stood comfortable at 34 in FY2019 as compared to 43 days in previous year. The inventory days also stands comfortable at 18 days in FY2019 as compared to 19 days in previous year. Acuité believes that the working capital of the company would be maintained at prudent levels over the medium term backed by the debtors management policy of the promoters.

Weaknesses
Susceptibility of profitability to volatility in raw material prices
The price of the key raw material, sponge iron and billets which accounts for 70 percent of raw material cost is volatile. This resulted into decrease in average realization to Rs.44090 per MT till January 2020 (Prov.) as compared to Rs.47474 per MT in previous year. Any sharp upward movement in the raw material prices and the inability of the company to pass on the increased cost of raw materials may result dip in operating margins.

Continual investment in JMD
CSIL has been consistently investing in JMD Alloys Limited for modernization of the unit. The investment stood at Rs 46.95 crore as on March 31, 2019. The amount invested would be repaid to CSIL over a period of time without any stipulated timeline. JMD Alloys is entitled to a capital subsidy which is yet to be received. The amount once received would be paid to CSIL. Acuité believes that the subsidy receipt would further boost the liquidity position of CSIL.

Rating Sensitivity
- Significant debt funded capex plan over the medium term
- Any change in the arrangement with JMD Alloys

Material Covenant
None

Liquidity Position: Strong

The company has strong liquidity marked by healthy net cash accruals of Rs.72.38 crore as against Rs.2.60 crore of yearly debt obligation. The cash accruals of the company are estimated to remain in the range of around Rs. 92.03 crore to Rs. 127.93 crore during 2020-22 against no major repayment obligations. The working capital of the company is efficiently managed marked by comfortable gross current asset days of 54 in FY2019. The bank limit is ~65 per cent utilized by the company and the company maintains unencumbered cash and bank balances of Rs. 0.58 crore as on March 31, 2019. The current ratio of the company stood at 1.93 times as on March 31, 2019.Acuite believes that the liquidity of the company is likely to remain strong over the medium term on account of healthy cash accruals against no major debt repayments over the medium term.

Outlook: Stable
Acuité believes that the outlook on CSIL rated facilities will remain 'Stable' over the medium term backed by its experienced management and robust financial risk profile. The outlook may be revised to 'Positive' in case the company registers more than envisaged sales and profitability while improving its financial risk profile. The outlook may be revised to 'Negative' in case the company fails to achieve envisaged revenue and profitability and its working capital cycle gets stretched or its financial risk profile deteriorates.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	1209.41	730.93
PAT	Rs. Cr.	68.61	27.73
PAT Margin	(%)	5.67	3.79
Total Debt/Tangible Net Worth	Times	0.40	0.88
PBDIT/Interest	Times	8.99	5.36

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

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
06-Dec-2018	Cash Credit	Long Term	115.00	ACUITE A/Stable (Upgraded)
	Proposed Cash Credit	Long Term	65.00	ACUITE A/Stable (Upgraded)
	Letter of Credit	Short Term	10.00	ACUITE A1 (Upgraded)
	Proposed Long Term Loan	Long Term	10.00	ACUITE A1 (Assigned)
14-Dec-2017	Cash Credit	Long Term	117.50	ACUITE A-/Stable (Reaffirmed)
	Proposed	Long Term	7.50	ACUITE A-/Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Reaffirmed)
23-Nov-2016	Proposed Long Term	Long Term	2.50	ACUITE A-/Stable (Assigned)

	Cash Credit	Long Term	57.50	ACUITE A-/Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	180.00	ACUITE A+/Stable (Upgraded form ACUITE A/Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1+ (Upgraded) from ACUITE A1)

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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.