

Press Release

Captain Steel India Limited (Erstwhile BMA Stainless Limited)

May 27, 2021



Rating Reaffirmed & Outlook Revised

Total Bank Facilities Rated*	Rs. 200.00 Cr.
Long Term Rating	ACUITE A+/Positive (Reaffirmed, Outlook revised from Stable)
Short Term Rating	ACUITE A1+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

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

The revision in outlook factors in the consistent improvement in the business risk profile of the company reflected from its steady growth in turnover and profitability apart from the sustenance in their strong financial risk profile. The outlook revision also considers the management's conscious strategy in expanding its outreach through acquiring entities on lease.

The rating continues to reflect the company's established market position in eastern region, strong brand presence and vast distribution network. The rating also reflects efficient working capital management of the company and strong liquidity position during the period. However, these strengths are partially offset by the cyclical nature of steel industry and the vulnerability of margins to the fluctuations in commodity prices.

About the company

Captain Steel 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 207,360 MTPA and 249,630 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.

In Oct'17, CSIL has entered into an agreement with JMD Alloys Limited (a Patna based company) having a production capacity of 1,80,500 MTPA 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.

Further, CSIL has taken over a new unit in Durgapur under lease agreement for 10 years in August 2020. This unit has started manufacturing of TMT bars exclusively for CSIL under the brand name of "Captain" from November 2020 onwards with the installed capacity of 96000 MTPA.

Analytical Approach:

Acuité has considered standalone business and financial risk profile of CSIL while arriving at the rating.

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. CSIL is part of the BMA group which has been carrying out its business since 1920, under Mr Bhurmal Agarwalla, the founder of the group. Over the years, the company has been able to establish a strong brand 'Captain' and penetrate into states such as Assam, Bihar, Jharkhand, and 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 financial risk profile of the company is marked by healthy net worth, nil gearing and strong debt protection metrics. The net worth of the company stood healthy at Rs.363.70 crore in FY2021 (Prov.) as compared to Rs 257.81 crore in FY2020. The gearing of the company stood nil as on March 31, 2021 (Prov.) when compared to 0.19 times as on March 31, 2020. Interest coverage ratio (ICR) is strong and stood at 27.05 times in FY2021 (Prov.) as against 13.30 times in FY2020. The debt service coverage ratio (DSCR) of the company also stood strong at 15.50 times in FY2021 (Prov.) as compared to 7.92 times in the previous year. The net cash accruals to total debt (NCA/TD) stood strong at 90.80 times in FY2021 (Prov.) as compared to 1.88 times in the previous year. Going forward, Acuité believes the financial risk profile of the company will remain robust on account of steady net cash accruals and no major debt funded capex plan over the near term.

Continuous improvement in scale of operation and healthy profitability margins

The company reported a turnover of Rs.1451.17 crore in FY2021 (Prov.) as compared to Rs.1198.32 crore in the previous year, thereby registering a 21 percent y-o-y growth. This growth in revenue of the company is marked mainly by gaining foothold in the markets of Bihar, Uttar Pradesh and Jharkhand along with increase in average realization in FY2021 as compared to the previous year. Acuité believes that the company will be able to enhance its visibility further in West Bengal post the addition of its unit in Durgapur. Going forward, Acuité believes that the company will continue in its current pace of growth backed by favorable demand in iron and steel industry.

The operating profitability margin of the company stood healthy at 10.44 per cent in FY2021 (Prov.) as compared to 11.30 per cent in the previous year. This decline in operating level is on account of increase in raw material price during the period. The net profitability margin of the company stood healthy at 7.30 per cent in FY2021 (Prov.) as compared to 7.24 per cent in the previous year. Further, the profitability margins have led the company to increase in accruals which has sharply increased to Rs.110.55 crore in FY2021 (Prov.) as compared to Rs.91.21 crore in the previous year. Acuité believes the profitability margin of the company will be sustained at current levels over the medium term on account of well-established position in the markets of Assam, Bihar, Jharkhand, Uttar Pradesh and West Bengal.

Prudent working capital management

The efficient working capital management of the company is marked by gross current asset (GCA) days of 79 days in FY2021 (Prov.) as compared to 71 days in FY2020. The debtor days of the company stood comfortable at 38 days in FY2021 (Prov.) as compared to 39 days in the previous year. The inventory holding period of the company also stood comfortable at 32 days in FY2021 (Prov.) as compared to 22 days in the previous year. Moreover, the company has been utilized ~35 per cent of its working capital facility for the last six months ended April 2021. Acuité believes that the working capital of the company would be maintained at prudent levels over the medium term backed by the efficient debtor's management policy of the promoters.

Weaknesses

Unsecured nature of advances

CSIL has invested in JMD Alloys Limited post entering into the JV towards modernization of the unit. The investment which stood at Rs 46.79 crore as on March 31, 2021, would be repaid to CSIL over a period of time without any stipulated timeline. The said amount reflects as 'Advances' in the books of JMD. JMD Alloys Limited is entitled to a capital subsidy which is yet to be received. The amount once received would be paid to CSIL.

Intense competition and inherent cyclical nature in the steel industry

The steel industry is highly fragmented and unorganised. The company is exposed to intense competitive pressure from large number of organised and unorganised players along with its exposure to inherent cyclical nature of the steel industry.

Rating Sensitivity

- Significant debt funded capex plan over the near term
- Working capital management

Material Covenant

None

Liquidity Position: Strong

The company has strong liquidity marked by healthy net cash accruals of Rs.110.55 crore as against Rs.0.80 long term debt obligation during FY2021 (Prov.). The cash accruals of the company are estimated to remain in the range of around Rs. 132.12 crore to Rs. 176.19 crore during 2022-24 as against of nil long term debt obligations. The current ratio of the company stood comfortable at 3.09 times in FY2021 (Prov.). The efficient working capital management of the company is marked by Gross Current Asset (GCA) days of 79 days in FY2021 (Prov.). The bank limit of the company has been ~35 per cent utilized during the last six months ended in April 2021. Moreover, the company has neither availed any covid emergency fund nor availed covid moratorium till August 2020. Acuité believes that the liquidity of the company is likely to remain strong over the medium term on account of healthy cash accruals against nil long debt repayments over the medium term.

Outlook: Positive

Acuité believes that CSIL has consistently improved the business risk profile of the company as reflected from its substantial increase in scale of operations and maintenance in profitability parameters. Moreover, the company has been able to maintain its robust financial risk profile apart from its prudent working capital management. The rating may be upgraded if the company sustains the growth momentum while maintaining the operating profitability and the financial risk profile. Conversely, the outlook may be revised to 'Stable' in case of lower than anticipated revenues, deterioration in profitability metrics or deterioration in financial risk profile.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	1451.17	1198.32
PAT	Rs. Cr.	105.89	86.72
PAT Margin	(%)	7.30	7.24
Total Debt/Tangible Net Worth	Times	0.00	0.19
PBDIT/Interest	Times	27.05	13.30

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>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
27-Feb-2020	Cash Credit	Long Term	180.00	ACUITE A+/Stable (Upgraded)
	Letter of Credit	Short Term	20.00	ACUITE A1+ (Upgraded)
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	Short Term	7.50	ACUITE A-/Stable (Reaffirmed)
	Letter of Credit	Long Term	5.00	ACUITE A2+ (Reaffirmed)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A+/Positive (Rating reaffirmed & outlook revised from Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A+/Positive (Rating reaffirmed & outlook revised from Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A+/Positive (Rating reaffirmed & outlook revised from Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A+/Positive (Rating reaffirmed & outlook revised from Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1+ (Reaffirmed)

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About Acuité Ratings & Research:

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