

Press Release

Captain Steel India Limited (Erstwhile BMA Stainless Limited)

March 24, 2022



Rating Reaffirmed, Upgraded and Upgraded & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	180.00	ACUITE AA- Stable Upgraded Positive to Stable	-
Bank Loan Ratings	20.00	-	ACUITE A1+ Reaffirmed
Bank Loan Ratings	20.00	ACUITE AA- Upgraded & Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	200.00	-	-
Total Withdrawn Quantum (Rs. Cr)	20.00	-	-

Rating Rationale

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

Acuite has also upgraded and withdrawn the long term rating of '**ACUITE AA-**' (read as ACUITE double A minus) from '**ACUITE A+**' (read as ACUITE A plus) to the Rs.20.00 Cr bank facilities of Captain Steel India Limited (CSIL). The rating withdrawal is in accordance with Acuite's policy on withdrawal of rating and on account of request received from the company and no objection certificate received from the banker.

The rating upgrade is driven by the robust financial risk profile of the company and its strong liquidity position. The rating also factors in the overall improvement in business risk profile of the company marked by steady growth in operating income while maintaining the profitability margin at a healthy level. The rating derives comfort from company's current year performance till 31st December 2021 (Provisional) where the company has clocked revenues of around Rs.1287.67 Cr as compared to Rs.902.87 Cr during the corresponding period in the previous year. The robust financial risk profile is marked by strong network and robust debt protection metrics. The superior liquidity of the company is marked by healthy net cash accruals and moderate utilization of working capital facility for the last six months ended December 2021.

The rating also takes into account the established track record of operation in the steel industry, company's established market position in eastern region along with strong brand presence and wide distribution network in TMT bars. The business strengths are also derived from the management strategy of expanding its outrun through acquisition of entities on lease along with efficient working capital management. 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 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 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 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 96,000 MTPA.

Analytical Approach

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

Key Rating Drivers

Strengths

Long track record of operation and experienced management

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. Over the years, CSIL had established relationship with its customers and suppliers and sold TMT bars through various distribution channels in the market. The company currently has 6000 dealers in the eastern region of the country.

Improving scale of operation coupled with healthy profitability

The revenue of the company witnessed a 21.16 per cent growth in FY2021, its revenue increased to Rs.1451.90 crore in FY2021 as compared to Rs.1198.32 crore in the previous year. This growth in revenue of the company is majorly due to penetrating the market of Bihar, UP and Jharkhand more along with increase in average realization in FY2021 as compared to in the previous year in Asansol unit. The average realization per unit has further improved in the current financial year. Going forward, Acuité believes that the revenues of the company will increase on account of the availability of un-utilized capacity to cater to the increase in demand of the steel industry.

The operating profitability margin of the company stood comfortable at 10.32 per cent in FY2021 as compared to 11.30 per cent in FY2020. This slight decline in profitability is on account of increase in the raw material cost during the period. The operating profitability margin of the company has moderated to 8.39 per cent till 9MFY2022 due to increase continuous increase in raw material price. However, the company has been able to partially pass on the incremental cost to the customers, which further reflected into the continuous improvement in the average selling price per unit. The net profitability margin of the company stood healthy at 7.19 per cent in FY2021 as compared to 7.24 per cent in the previous year.

Robust financial risk profile

The financial risk profile of the company is marked by strong net worth, nil gearing and strong debt protection metrics. The net worth of the company stood healthy at Rs.362.14 crore in FY 2021 as compared to Rs 257.81 crore in FY2020. This improvement in networth is mainly due to the retention of current year profit. The gearing of the company is almost nil as on March 31, 2021 when compared to 0.19 times as on March 31, 2020. Interest coverage ratio (ICR) is strong and stood at 26.62 times in FY2021 as against 13.30 times in FY 2020. The debt service coverage ratio (DSCR) of the company also stood strong at 15.29 times in FY2021 as compared to 7.92 times in the previous year. The net cash accruals to total debt (NCA/TD) stood strong at 89.65 times in FY2021 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.

Prudent working capital management

The prudent working capital management of the company is marked by comfortable GCA days of 75 days in FY2021 as compared to 71 days in FY2020. The debtor days of the company stood comfortable at 37 days in FY2021 as compared to 39 days in the previous year. The inventory holding period of the company also stood comfortable at 32 days in FY2021 as compared to 22 days in the previous year. However, this increase in inventory in FY2021 is on account of increase in finished goods inventory as on 31st March 2021. The company has utilized only 34 per cent of its working capital facility for the last six months ended December 2021. Acuité believes that the working capital of the company would be maintained at prudent levels over the medium term backed by its efficient debtor management policy.

Weaknesses

Significant unsecured advances to a business entity

CSIL has provided an unsecured interest free advance Rs 49.80 crore to JMD Alloys Limited (a Patna based company) for the modernization and up gradation of the plant and machinery. CSIL has entered into an agreement with JMD for exclusive conversion of the billets to TMT bars for CSIL. The production capacity for TMT bars is 180500 MTPA. The company is expecting Rs. 32.00 crores as capital investment subsidy which has been already approved. Once the payment is received, this would be transferred to CSIL towards adjustment of the advances given.

Intense competition and inherent cyclicity in the steel industry

The company is operating in competitive and fragmented nature of industry due to the presence of a large number of unorganized players on account of low entry barriers. Moreover, demand for steel products predominantly depends on the construction and infrastructure sectors. Thus, the profit margins and sales of the company remains exposed to inherent cyclicity in these sectors.

Rating Sensitivities

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

Material covenants

None

Liquidity Position: Strong

The company has strong liquidity position marked by healthy net cash accruals of Rs.109.14 Cr as against nil long term debt obligations in FY2021. The cash accruals of the company are estimated to remain in the range of around Rs. 128.65 Cr to Rs. 146.90 Cr during 2022- 23 as against no long term debt obligations during the period. The current ratio of the company stood healthy at 4.81 times in FY2021. The Gross Current Asset (GCA) days of the company stood healthy at 75 days in FY2021. The bank limit of the company has been only 34 percent utilized on an average during the last six months ended in December 2021. Acuite believes that the liquidity of the group is likely to remain strong over the medium term on account of healthy cash accruals against no long debt repayments over the medium term.

Outlook: Stable

Acuite believes that the outlook of the company will remain stable over the medium term backed by its experienced management, established brand presence, healthy scale of operations and robust financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in revenues while achieving sustained improvement in operating margins and 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 owing to higher working capital requirement.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	1451.90	1198.32
PAT	Rs. Cr.	104.33	86.72
PAT Margin	(%)	7.19	7.24
Total Debt/Tangible Net Worth	Times	0.00	0.19
PBDIT/Interest	Times	26.62	13.30

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
27 May 2021	Bank Guarantee	Short Term	20.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE A+ Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE A+ Stable (Reaffirmed)

	Cash Credit	Long Term	45.00	ACUITE A+ Stable (Reaffirmed)
	Cash Credit	Long Term	75.00	ACUITE A+ Stable (Reaffirmed)
27 Feb 2020	Cash Credit	Long Term	180.00	ACUITE A+ Stable (Upgraded from ACUITE A Stable)
	Letter of Credit	Short Term	20.00	ACUITE A1+ (Upgraded from ACUITE A1)
06 Dec 2018	Cash Credit	Long Term	115.00	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Proposed Cash Credit	Long Term	65.00	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Letter of Credit	Short Term	10.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Proposed Letter of Credit	Short Term	10.00	ACUITE A1 (Assigned)
14 Dec 2017	Cash Credit	Long Term	117.50	ACUITE A- Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	7.50	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Reaffirmed)
23 Nov 2016	Cash Credit	Long Term	57.50	ACUITE A- Stable (Assigned)
	Proposed Long Term Loan	Long Term	2.50	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1+ Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE AA- Stable Upgraded Positive to Stable
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE AA- Stable Upgraded Positive to Stable
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE AA- Stable Upgraded Positive to Stable
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE AA- Upgraded & Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE AA- Stable Upgraded Positive to Stable

Contacts

Analytical	Rating Desk
Pooja Ghosh Head-Rating Operations Tel: 022-49294041 pooja.ghosh@acuите.in Abhishek Dey Analyst-Rating Operations Tel: 022-49294065 abhishek.dey@acuите.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuите.in

About Acuité Ratings & Research

Acuité Ratings & Research 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 8,850 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 Kanjurmarg, Mumbai.

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