

Press Release

BRGD Sponge & Iron Private Limited

October 06, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 70.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.70.00 crore of bank facilities of BRGD Sponge & Iron Private Limited. The outlook is '**Stable**'.

BRGD Sponge & Iron Private Limited was incorporated in 2004 by Mr. Rajesh Kumar Kanodia and Mr. Sanjeev Kanodia and is engaged in trading of sponge iron, coal and ferroalloys. The company primarily caters to its flagship entity Balmukund Concast Private Limited.

Incorporated in 1995, Balmukund Concast Private Limited (BCPL) is the flagship company of the Balmukund group currently managed by Mr. Rajeev Kumar Kanodia, Mr. Sanjeev Kanodia, Mr. Ajay Kumar Jhunjhunwala, Mr. Santosh Kanodia and Ms. Pinky Agarwal. The company is engaged in manufacturing of thermomechanical treated (TMT) bars under the brand name of 'Balmukund Diamond' with an installed capacity of 150000 MTPA and 100000 MTPA of MS Billet respectively. The company has its manufacturing facility located at Patna, Bihar.

Analytical Approach:

Acuite has consolidated the financial and business risk profile of Balmukund Concast Private Limited (BCPL) and BRGD Sponge & Iron Private Limited (BRGD). The group is herein being referred to as Balmukund Group. The same is on account of common management, the same line of operations and significant operational and financial linkages. Extent of consolidation: Full

Key Rating Drivers:

Strengths

Established track record of operation and experienced management

The group has a long execution track record of 25 years in the iron and steel industry and is one of the leaders in the Bihar and Jharkhand market. The promoter of the group Mr. Rajesh Kumar Kanodia, Mr. Sanjeev Kanodia and Mr. Ajay Kumar Jhunjhunwala possesses more than two decades of experience in the iron and steel industry. The other directors Mr. Santosh Kanodia and Ms. Pinky Agarwal also have experience of more than a decade in the iron and steel industry. The group has a long presence in this sector and has established a healthy relationship with customers for more than a decade. Acuite believes that the group will continue to benefit from its promoter's extensive industry experience and established relationship with customers over the medium term.

Healthy scale of operation

The revenue of the group stood healthy at Rs.435.03 crore in FY2020 (Prov.) as compared to Rs.431.27 crore in the previous year. However, the sluggish growth in revenue of the group is on account of a decrease in average realization to Rs. 36176 MTPA in FY 2020 (Prov.) as compared to Rs.38269 MTPA in the previous year despite an increase in the volume of sales. The group has earned Rs.132.25 crore till 31st August 2020 (Prov.).

Comfortable financial risk profile

The financial risk profile of the group is marked by moderate net worth, low gearing and strong debt protection metrics. The net worth of the group stood healthy at Rs.55.17 crore in FY 2020 (Prov.) as compared to Rs. 47.15 crore in FY2019. This improvement in networth is mainly due to the retention of current year profit. The gearing

of the group stood low at 0.39 times as on March 31, 2020 (Prov.) when compared to 0.74 times as on March 31, 2019. This improvement in gearing is mainly on account of repayment of unsecured loan and improvement in networth of the group during the period. Interest coverage ratio (ICR) stood at 7.38 times in FY2020 (Prov.) as against 4.68 times in FY 2019. The debt service coverage ratio (DSCR) of the group also stood healthy at 3.73 times in FY2020 (Prov.) as compared to 4.68 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.46 times in FY2020 as compared to 0.22 times in the previous year. Going forward, Acuite believes the financial risk profile of the group will remain healthy despite the ongoing capex and steady cash accruals.

Efficient working capital management

The working capital management of the group is marked by comfortable gross current asset (GCA) days of 57 days in FY2020 (Prov.) as compared to 58 days in the previous year. The debtor days of the group stood comfortable at 27 days in FY2020 (Prov.) as compared to 20 days in the previous year. The inventory days of the group also stood comfortable at 15 days in FY2020 (Prov.) as against 21 days in the previous year. Moreover, the working capital limit has been utilized 60 per cent in the last six months ended August, 2020. Acuite believes that the ability of the group to manage its working capital operations efficiently will remain a key rating sensitivity.

Weaknesses

Debt funded capex plan

The group is presently setting up a new MS Billet and TMT manufacturing facility in BRGD Sponge & Iron Private Limited with an installed capacity of 144000 MTPA and 140000 MTPA respectively. The total estimated project cost is around Rs.80.00 crore which is expected to be funded through term loan from bank of Rs.40.00 crore and rest through the promoters own contribution. The project has already been commenced and land has already been acquired in Purulia, West Bengal. The group has already incurred around Rs.20.00 crore which has been funded entirely through its own funds and the financial closure of the debt portion of the project is yet to be sanctioned. The project is expected to complete by September 2021 and the commercial operation is expected to commence from October 2021. Hence, the group is exposed to project implementation risk as the completion of the project within the estimated time and cost will be a factor of key rating sensitivity. However, Acuite believes that the capital structure would remain at comfortable levels despite the capex due to the steady accruals of the group.

Low profitability margin

The operating profitability margin of the group stood low at 3.32 per cent in FY2020 (Prov.) as compared to 2.85 per cent in the previous year. However, the operating profitability margin of the group has improved on account of the decrease in the raw material price during the period. The net profitability margin of the group stood at 1.85 per cent in FY2020 (Prov.) as compared to 1.28 per cent in the previous year. Acuite believes the profitability margin of the group will improve from current levels over the medium term post commencement of manufacturing operations in BRGD Sponge & Iron Private Limited.

Intense competition and inherent cyclicity in the steel industry

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

Rating Sensitivity

- Scaling up of operations while improving their profitability margin
- Sustenance of their conservative capital structure
- Timely completion of debt-funded capex

Material Covenant

None

Liquidity Position: Adequate

The group has adequate liquidity marked by healthy net cash accruals in FY2020 (Prov.) of Rs.9.84 crore as against Rs.1.13 crore of yearly debt obligations. The cash accruals of the group are estimated to remain in the range of around Rs. 9.49 crore to Rs. 17.71 crore during 2021-23 against Rs. 1.13 crore in FY2021 and Rs.6.63 crore in FY2022 and FY2023 of long term debt obligation respectively. The Gross Current Asset (GCA) days stood comfortable at 57 days in FY2020 (Prov.). The bank limit is 60 per cent utilised by the group for the last six months ended in August 2020. The current ratio of the group stood at 1.42 times as on March 31, 2020 (Prov.).

The liquidity of the group is also supported by the unencumbered cash balance of Rs.1.39 crore in FY2020 (Prov.) and free investment of Rs.2.78 crore in FY2020 (Prov.). Moreover, the group has also been sanctioned a COVID19 emergency credit line of Rs.0.60 crore. The said loan is to be repaid over a period of 4 years, including 1 year of the moratorium. Hence, Acuite believes that this short term funding will further ease the liquidity position of the group. However, the group has not availed of loan moratorium. Acuite believes that the liquidity of the group is likely to be sustained over the medium term on account of healthy cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuite believes that group's business risk profile is expected remain 'Stable' on the back of extensive promoter's experience in the iron and steel industry and comfortable financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected improvement in accruals while sustaining their liquidity position. Further, the outlook may be revised to 'Negative' in case of a sharp decline in accruals, a decline in profitability margin or deterioration in debt protection metrics.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	435.03	431.27
PAT	Rs. Cr.	8.03	5.53
PAT Margin	(%)	1.85	1.28
Total Debt/Tangible Net Worth	Times	0.39	0.74
PBDIT/Interest	Times	7.38	4.68

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	74.47	63.32
PAT	Rs. Cr.	0.68	0.52
PAT Margin	(%)	0.91	0.83
Total Debt/Tangible Net Worth	Times	0.46	0.08
PBDIT/Interest	Times	4.10	4.42

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>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities – <https://www.acuite.in/view-rating-criteria-61.htm>
- Consolidation Of Companies – <https://www.acuite.in/view-rating-criteria-60.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)

Not Applicable

***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	7.50	ACUITE BBB/Stable (Assigned)
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB/Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE BBB/Stable (Assigned)
Proposed Short Term	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Assigned)

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About Acuité Ratings & Research:

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