

Press Release

BRGD Sponge & Iron Private Limited

January 06, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	70.00	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	10.50	-	ACUITE A3+ Assigned
Bank Loan Ratings	10.00	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	100.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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.80.00 crore of bank facilities of BRGD Sponge & Iron Private Limited.

Acuite has also assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.20.50 crore of bank facilities of BRGD Sponge & Iron Private Limited. The outlook is '**Stable**'.

Rationale for the rating

The rating continues to consider the established track record of operation and long-standing experience of the promoters in the business of iron and steel industry, strong distribution network and established brand presence. The rating also factors the healthy financial risk profile of the group. However, these strengths are partially offset by the declining profitability margin and intense competition and inherent cyclical nature in the steel industry.

About Company

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.

About the Group

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 thermomechanically treated (TMT) bars under the brand name of 'Balmukund Diamond' with an installed capacity of 150,000 MTPA and 108,000 MTPA of MS Billet respectively. The company has its manufacturing facility located at Patna, Bihar.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité 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, same line of operations and significant operational and financial linkages.

Key Rating Drivers

Strengths

Long 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 group has a long presence in this sector and has established a healthy relationship with customers for more than a decade.

Healthy scale of operation

The revenue of the company witnessed a 32.32 per cent growth in FY2022, its revenue increased to Rs.580.42 crore in FY2022 as compared to Rs.438.66 crore in the previous year. This growth in sales is majorly due to increase in average realization per unit during FY2022 backed by steady demand for rolled products. Further, the average realization of the rolled product has also improved during the 1st half of FY2023, however, the realization for rolled product has declined globally, which may lead to an overall sluggish growth in the revenue during FY2023. The company has booked around Rs.475 crore of sales till 30th November 2022 (Prov.).

Strong distribution network & Established brand presence

The group has strong distribution network and sell its finished products to the dealers located in Bihar and Jharkhand. The group has 15 distributors and each distributor having 40 dealers. Therefore, around 600 dealers, sub-dealers and retailers are spread across the various market places in Bihar and Jharkhand. This provide the strong distribution network and help the group to increase the market share in the region.

The group also has an established position in the TMT bars industry with a strong recall for its brand 'Balmukund Diamond' especially in Bihar and Jharkhand. The strong presence and distribution network help the group to hold around 7-8 per cent in Bihar organized market. Acuite believes, going forward established brand presence and strong distribution network help the group to maintain strong business risk profile.

Healthy financial risk profile

The financial risk profile of the group is marked by healthy net worth, comfortable gearing and strong debt protection metrics. The net worth of the company stood healthy at Rs.96.95 crore in FY 2022 as compared to Rs 72.06 crore in FY2021. This improvement in networth is mainly due to the retention of profit. The gearing of the group stood at 0.83 times as on March 31, 2022 when compared to 0.81 times as on March 31, 2021. This further increase in gearing is mainly on account of increase in short term debt during the period. Interest coverage ratio (ICR) is strong and stood at 7.02 times in FY2022 as against 10.37 times in FY2021. The debt service

coverage ratio (DSCR) of the group also stood comfortable at 3.85 times in FY2022 as compared to 8.53 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.20 times in FY2022 as compared to 0.31 times in the previous year. Going forward, Acuite believes the financial risk profile of the group will remain strong on account of steady net cash accruals.

Weaknesses

Debt funded capex plan

The group is undertaking a capex in BRGD Sponge & Iron Private Limited. The group is going to set up MS Billet and TMT manufacturing facility with the capacity of 144,000 MTPA and 140,000 MTPA respectively. The project work has already been commenced and land has already been acquired in Purulia, West Bengal which is also in close vicinity of the borders of Jharkhand. The total project cost would be Rs.90.00 crore. Out of which Rs.20 crore has already been expended through the promoters own fund and balance Rs.70.00 crore would be funded through the fresh term loan of Rs.50.00 crore and rest through the promoters contributions. The term loans have been sanctioned and partially disbursed. The management of the group is trying to enter into the West Bengal market through this capex. Moreover, the group will also enjoy the lower power cost from DVC as well, which further help them to maintain the operating margin. The project is expected to complete by October 2024 and will start its operation after that.

Declining profitability margin

The operating profitability margin of the company has decreased to 3.79 per cent in FY2022 as compared to 5.10 per cent in the previous year. This decrease in profitability margin is on account of significant increase in raw material price during FY2022. Going forward, Acuite believes, that the profitability margin of the company will increase and sustained at moderate levels over the medium term backed by steady demand and stable realization. The operating profitability margin has further increased and moderate at 4.55 per cent during 6MFY2023.

The net profitability margin of the company stood comfortable at 2.41 per cent in FY2022 as compared to 3.48 per cent in the previous year.

Intense competition and inherent cyclicality in the steel industry

The group is operating in competitive and fragmented nature of industry due to the presence of many 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 cyclicality in these sectors.

Rating Sensitivities

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

Material Covenants

None

Liquidity Position

Adequate

The company has adequate liquidity marked by healthy net cash accruals of Rs.16.32 crore as against Rs.1.66 crore long term debt obligation during FY2022. The cash accruals of the company are estimated to remain in the range of around Rs. 18.59 crore to Rs. 20.39 crore during 2022-24 as against Rs.6.92 crore in FY2023 and Rs.7.50 crore in FY2024 of long term debt

obligations respectively. The current ratio of the company stood comfortable at 1.32 times in FY2022. The working capital management of the company is marked by comfortable Gross Current Asset (GCA) days of 60 days in FY2022. The bank limit of the company has been ~76 per cent utilized during the last six months ended in October 2022. The group has sizeable non-core investments in property amounting to Rs.45.10 crore in FY2022 as compared to Rs.21.69 crore in FY2021. This high amount of non-core investments in property restricts the liquidity position of the group as the funds remain blocked. Going forward, any further increase in non-core investments in property will be a key monitorable. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuité 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 a 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	580.42	438.66
PAT	Rs. Cr.	14.00	15.28
PAT Margin	(%)	2.41	3.48
Total Debt/Tangible Net Worth	Times	0.83	0.81
PBDIT/Interest	Times	7.02	10.37

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.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. Acuite'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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Jan 2022	Cash Credit	Long Term	20.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Short Term Loan	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Long Term	40.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	10.00	ACUITE BBB Stable (Assigned)
06 Oct 2020	Proposed Bank Facility	Long Term	40.00	ACUITE BBB Stable (Assigned)
	Proposed Short Term Loan	Short Term	10.00	ACUITE A3+ (Assigned)
	Proposed Cash Credit	Long Term	12.50	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	7.50	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB Stable Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3+ Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A3+ Assigned
ICICI Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.50	ACUITE A3+ Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.00	ACUITE BBB Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	20.00	ACUITE BBB Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	20.00	ACUITE BBB Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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