

Press Release
BRGD Sponge & Iron Private Limited
March 30, 2024
Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	80.00	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	20.50	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	100.50	-	-

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.100.50 crore of bank facilities of BRGD Sponge and Iron Private Limited. The outlook is ‘**Stable**’.

Rationale of 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 in its revenue diversity across the steel sector and the comfortable financial risk profile of the company characterized by healthy networth and comfortable debt coverage indicators and efficient working capital management. These strengths are, however, partly offset by cyclical nature of the steel industry and the volatility in commodity prices resulting in slight decline in profitability.

About Company

Kolkata based BRGD Sponge and Iron Private Limited was incorporated in 2004 by Mr. Rajesh Kumar Kanodia, Mrs. Chitra Kanodia and Mr. Sanjeev Kanodia and is engaged in manufacturing and trading of sponge iron, coal and ferroalloys. The company primarily caters to its flagship entity Balmukund Concast Private Limited. The Company is also setting up a unit for billets & TMT in West Bengal expected to commence operations by November 2024.

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. Ajay Kumar Jhunjunwala. 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.

Unsupported Rating

Not Applicable

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 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 Jhujhunwala 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.

Healthy scale of operation and increase in absolute margins

The revenue of the group witnessed a 43.56 per cent growth in FY2023, its revenue increased to Rs.833.27 crore in FY2023 as compared to Rs.580.42 crore in the previous year. This growth of the revenue is majorly due to increase in volume sales by the group. The realization in rolled product had increased abnormally in FY22 which steadily witnessed correction in second half of FY2023 and continues to decline in current fiscal year also. In the present year also, due to decline of prices for rolled product has globally, has resulted into overall sluggish growth in the revenue during 9MFY2024. The company has booked around Rs.609.26 crore of sales till 9MFY2024(Prov.). The group is undertaking opportunistic trading activity in BRGD, however with the commercialization of its project in November 2024, it will shift the focus towards manufacturing activities. Going forward, Acuite believes that revenue of the company will maintain at a healthy level but sluggish growth on account of overall moderation in iron and steel industry globally.

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. Thus provide the strong distribution network and help the group to increase the market share Bihar 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 debt protection metrics. The net worth of the company stood healthy at Rs. 113.66 Cr. crore in FY 2023 as compared to Rs.96.95 Cr. in FY2023. This improvement in networth is mainly due to the retention of profit. The gearing of the group stood at 1.03 times as on March 31, 2023 when compared to 0.83 times as on March 31, 2022. This further increase in gearing is mainly on account of increase in term debt for finding a part of its capex plans and also partially of the short term debt during the period. Interest coverage ratio (ICR) is strong and stood at 6.92 times in FY2023 as against 7.01 times in FY2022. The debt service coverage ratio (DSCR) of the group also stood comfortable at 2.05 times in FY2022 as compared to 3.84 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.16 times in FY2023 as compared to 0.20 times in the previous year. Going forward, Acuite believes the financial risk profile of the group will remain healthy on account of steady net cash accruals and conservative gearing policy.

Efficient Working capital Management

The working capital cycle of the group is efficient marked by Gross Current Assets (GCA) of 45 days in 31st March 2023 as compared to 60 days in 31st March 2022. The lean GCA days is on account of low inventory levels and debtor cycle during the same period. The inventory holding stood at 17 days in 31st March 2023 as compared to 31 days as on 31st March 2022. However, the debtor period stood comfortable at 21 days in 31st March 2023 as compared to 18 days in 31st March 2022. Acuité believes that the working capital operations of the group will remain at same level as evident from efficient collection mechanism and low inventory levels over the medium term.

Weaknesses

Moderate profitability margin

The operating profitability margin of the company has dipped slightly to 3.08 per cent in FY2023 as compared to 3.78 per cent in the previous year. This decrease in profitability margin is on account of significant increase in raw material price during FY2023 while marginal decline in finished goods prices. Going forward, Acuité 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 3.78 per cent during 9MFY2023.

Moreover, the comfortable profitability margins have led the company to generate healthy accruals of Rs.18.41 crore in FY23 compared to Rs.16.31 crore in the previous year.

The realization per unit was abnormally high during FY2022, which further led to increase the raw material price as well as the price of the finished goods during the same period. The net profitability margin of the company stood comfortable at 1.87 per cent in FY2023 as compared to 2.41 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

- Improvement in revenue while improving profitability
- Sustenance of the capital structure
- Timely completion of the capex

Liquidity Position

Adequate

The group has adequate liquidity marked by healthy net cash accruals of Rs.18.41 crore as against Rs.6.92 crore long term debt obligation during FY2023. The current ratio of the group stood comfortable at 1.30 times in FY2023. The working capital management of the group is marked by comfortable Gross Current Asset (GCA) days of 45 days in FY2023. The bank limit of the company has been ~72.5 per cent utilized during the last six months ended in January 2023. 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, moderate current ratio and efficient working capital requirement 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	833.27	580.42
PAT	Rs. Cr.	15.59	13.98
PAT Margin	(%)	1.87	2.41
Total Debt/Tangible Net Worth	Times	1.03	0.83
PBDIT/Interest	Times	6.92	7.01

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

Not Applicable

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. Acuité'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
06 Jan 2023	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	8.50	ACUITE A3+ (Assigned)
	Term Loan	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	20.00	ACUITE BBB Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	20.00	ACUITE BBB Stable (Reaffirmed)
05 Jan 2022	Cash Credit	Long Term	20.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	40.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Short Term Bank Facility	Short Term	10.00	ACUITE A3+ (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	12.00	ACUITE A3+ Reaffirmed
ICICI Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	8.50	ACUITE A3+ Reaffirmed
Axis Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE BBB Stable Reaffirmed
ICICI Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE BBB Stable Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE BBB Stable Reaffirmed
ICICI Bank Ltd	Not avl. / Not appl.	Term Loan	30 May 2022	Not avl. / Not appl.	30 Sep 2030	Simple	20.00	ACUITE BBB Stable Reaffirmed
Axis Bank	Not avl. / Not appl.	Term Loan	31 Jul 2022	Not avl. / Not appl.	31 Dec 2030	Simple	10.00	ACUITE BBB Stable Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Working Capital Term Loan	31 Aug 2022	Not avl. / Not appl.	30 Sep 2030	Simple	20.00	ACUITE BBB Stable Reaffirmed

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

1. Balmukund Concast Private Limited
2. BRGD Sponge & Iron Private Limited

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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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