

Press Release

Bagadiya Brothers Private Limited

October 13, 2021

Rating Assigned



Total Bank Facilities Rated	Rs 307.72 crore
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.307.72 Cr bank facilities of Bagadiya Brothers Private Limited (BBPL). The outlook is **'Stable'**.

The rating on BBPL takes into account the sound business risk profile of the company as reflected in its improving revenue trend coupled with healthy profitability. Further, it is also supported by the management's long track record in the sector, comfortable financial position characterized by strong debt coverage indicators and efficient working capital management. The rating also draws comfort from the adequate liquidity position of the company. These strengths are partly offset by customer concentration risk though of reputed clientele and susceptibility of profitability margins due to fluctuation in foreign exchange rates.

About the company

Incorporated in 2002- Bagadiya Brothers Private Limited (BBPL) is a Raipur (Chhattisgarh) based company engaged in trading of iron ore fines (IOF), iron ore pellets (IOP), rice, coal, manganese ore, scrap, etc. The company derives around 70 per cent of its revenue from iron ore fines and pellets. BBPL's board comprises of four directors namely, Mr. Omi Bagadiya, Mr. Anand Kumar Agarwal, Mr. Anurag Agarwal and Mr. Pankaj Agarwal. The clients of the company are geographically dispersed across the globe thus mitigating geographical concentration risk. BBPL predominantly sells the IOF & IOP to its overseas wholly owned subsidiary company Bagadiya Brothers Singapore Pte Limited (BBSPL), which in turn sells to Chinese customers.

Analytical Approach

Acuite has considered the consolidated business and financial risk profiles of BBPL and its subsidiary, Bagadiya Brothers Singapore Pte Limited (BBSPL) to arrive at this rating. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- Established track record of operation and experienced management

Established in 2002, the company has been operational for around two decades. The key promoters, Mr. Omi Bagadiya, Mr. Anand Kumar Agarwal, Mr. Anurag Agarwal and Mr. Pankaj Agarwal have more than three decades of experience in the business. The long standing experience of the promoters and long track record of operations has helped them to establish comfortable relationships with key suppliers and reputed customers across the continents. Acuite derives comfort from the long experience of the management and believes this will benefit the company going forward, resulting in steady growth in the scale of operations.

- Sound business risk profile

The strong business risk profile of the company is supported by steady scale of operations and diversified trading profile. The company has achieved revenues of Rs.1977.84 Cr in FY2021 (prov.) as compared to revenues of Rs. 1791.27 Cr in FY2020. The turnover of the company has been growing at a CAGR of more than 33.33 per cent from FY19 to FY21. Further, the stability in revenue is backed by established market position of the company and global demand for its products. BBPL sells the IOF & IOP to its overseas wholly owned subsidiary company Bagadiya Brothers Singapore Pte Limited (BBSPL), which in turn sells to Chinese customers.

The export of iron ore fines, pellets & lumps grew during FY2021 despite the disruptions caused by the outbreak of the COVID-19 pandemic. This was mainly on account of surge in demand from China. Further, the constrained supply from Brazil & Australia due to pandemic-induced disruptions also led to a sharp spike in iron ore prices during FY2021. The company earned around 71 percent of the total revenue from the export of IOF and IOP alone in FY 21. The company has achieved revenue of Rs 714.29 Cr (Prov.) till August 2021.

Moreover, the company has bagged an order from Government of Bangladesh of Rs. 142 Cr for supplying 50,000 MT of non-basmati rice. Around 30 per cent has already been shipped and the balance will be shipped in the upcoming month.

Going forward, Acuite believes the company is expected to maintain its sound business risk profile supported by the favorable demand outlook for iron ore in the booming economies.

- **Efficient working capital management**

The efficient working capital management of the company is marked by low Gross Current Assets (GCA) of 90 days in as on March 31, 2021 (Provisional) as compared to 101 days as on March 31, 2020. The debtor period stood low at 30 days as on March 31, 2021 (Provisional) as compared to 19 days as on March 31, 2020. Further, the inventory holding is comfortable at 21 days as on March 31, 2021 (Provisional) as compared to 45 days as on March 31, 2020. Acuite believes that the working capital operations of the firm will remain almost at the same levels as evident from efficient collection mechanism and low inventory levels over the medium term.

- **Healthy financial risk profile**

The company's healthy financial risk profile is marked by high networth base, moderate gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs.215.77 Cr as on March 31, 2021 (Provisional) from Rs.166.49 Cr as on March 31, 2020 due to accretion of reserves. Gearing of the company stood moderate at 1.15 as on March 31, 2021 (provisional) as compared to 1.35 as on March 31, 2020. The debt of Rs 248.27 Cr mainly consists of working capital borrowing of Rs.246.69 Cr and unsecured loans of Rs.1.58 Cr as on March 31, 2021 (provisional). The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.60 times as on March 31, 2021 (provisional) as against 2.23 times as on March 31, 2020. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 3.56 times as on March 31, 2021 (provisional) and Debt Service Coverage Ratio at 3.56 times as on March 31, 2021 (provisional). Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.20 times as on March 31, 2021 (provisional). Acuite believes that going forward the financial risk profile of the firm will remain healthy with no major debt funded capex plans.

Weakness

- **Customer concentration risk albeit reputed clientele**

BBPL executes orders mainly for various vintage global clients like Glencore International Ag, of Switzerland, Swiss Singapore Overseas Enterprises Ltd of Singapore and Prosperity Steel United Singapore Pte Ltd and earns revenue of about 35-40 per cent of its total operating income from these clients which exposes it to client concentration risk. However, the company has long standing relationship with these reputed clients for more than a decade which partly mitigates the concentration risk.

- **Susceptibility of profitability margins due to volatility in foreign exchange rates**

The operating margin of the company decreased to 2.23 per cent as on 31st March, 2021 (Provisional) as compared to 3.43 per cent in the previous year and remains susceptible to volatility in forex rates. The PAT margins stood at 2.22 per cent in FY2021 similar as in the previous year. The Return on Capital Employed (ROCE) of the company stood comfortable at 15.95 per cent as on FY2021 (Provisional) as compared to 15.79 per cent as on FY2020. Acuite believes the company will have low but improving profitability margins due to trading nature of operations.

Rating Sensitivity

- Sustainability in revenue growth and profitability margin

- Slump in demand of iron ore

Material Covenant

None

Liquidity Profile: Adequate

The company's liquidity is adequate marked by net cash accruals stood at Rs. 48.63 Cr as on March 31, 2021 (provisional) as against no debt repayment over the same period. The cash and bank balances of the company stood at Rs.55.66 Cr as on March 31, 2021 (provisional) as compared to Rs. 13.64 Cr as on March 31, 2020. The current ratio stood comfortable at 1.54 times as on March 31, 2021 (provisional). However, the fund based limit remained highly utilized at 88 per cent over six months ended August, 2021. Further, the company has applied for additional covid loan of Rs. 22.5 Cr, but has not availed loan moratorium to support the scaling up of operations. The company has efficient working capital management as reflected by low Gross Current Assets (GCA) of 90 days as on March 31, 2021 (provisional) as against 101 days as on March 31, 2020. Acuite believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuite believes that the outlook on BBPL will remain 'Stable' over the medium term on account of the experience of the promoters, healthy financial risk profile and comfortable business risk profile. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its scale of operations. 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.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	1,977.84	1,791.27
PAT	Rs. Cr.	44.00	39.84
PAT Margin	(%)	2.22	2.22
Total Debt/Tangible Net Worth	Times	1.15	1.35
PBDIT/Interest	Times	3.56	3.61

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Union Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB/Stable (Assigned)
Union Bank of India	PCFC	Not Applicable	Not Applicable	Not Applicable	90.00	ACUITE BBB/Stable (Assigned)

Union Bank of India	Bill Discounting	Not Applicable	Not Applicable	Not Applicable	85.00	ACUITE BBB/Stable (Assigned)
Union Bank of India	CELC	Not Applicable	Not Applicable	Not Applicable	7.72	ACUITE BBB/Stable (Assigned)
Union Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A3+ (Assigned)

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About Acuité Ratings & Research

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