

Press Release

Bagadiya Brothers Private Limited

January 11, 2023

Rating Downgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	232.72	ACUITE BBB- Stable Downgraded	-
Bank Loan Ratings	75.00	-	ACUITE A3 Downgraded
Total Outstanding Quantum (Rs. Cr)	307.72	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BBB**' (Read as **ACUITE Triple B**) and the short term rating to '**ACUITE A3**' (read as **ACUITE A Three**) from **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**'.

Rationale for the rating

The downgrade in the rating is primarily on account of subdued business risk profile marked by a sharp decline in revenues and cash losses thus leading to weak debt protection measures.

On the other hand, the rating continues to reflect the company's long track record of operations, experienced management, established relationships with reputed players.

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 used to derive its revenue from iron ore fines, pellets which it sources from manufacturing plants (which in turn source the iron ore from mines located in Odisha). BBPL's board comprise 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 sells the IOF & IOP to its overseas wholly owned subsidiary company, Bagadiya Brothers Singapore Pte Limited (BBSPL), which in turn sells to Chinese customers. In addition, the company also supplies rice to South East Asian countries. The company's sourcing cycle is continuous and is backed by orders from its subsidiary and as such does not carry inventory risk. Company has also been accorded the status of Three Star Export House by the Government of India.

Analytical Approach

Acuite has considered the consolidated business and financial risk profiles of Bagadiya Brothers Private Limited (BBPL) and its subsidiary, Bagadiya Brothers Singapore Pte Limited

(BBSPL) to arrive at this rating.

Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management and established relationship with customers**

Established in 2002, the company has been operational for more than fifteen years. The key promoters have more than 6 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. Acuité 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.

- **Diversified revenue portfolio**

The revenue driver from FY22 onwards and also in H1 FY23 shifted from export of IOP/IOF to exports of rice.

The revenue from rice trading has been at Rs.306.89 Cr in H1FY23(prov) as compared to Rs. 780.53 Cr in FY22 and Rs. 105 Cr in FY21. The rise is on account of tenders from the Government of Bangladesh.

- **Moderate financial risk profile**

The company's financial risk profile is marked by high networth, moderate gearing and weak debt protection metrics. The tangible net worth of the company declined to Rs.195.49 Cr as on 31st March, 2022 as compared to Rs.205.32 Cr as on 31st March, 2021 due to losses incurred in FY'22. Gearing of the company stood moderate at 1.28 times as on March 31, 2022 as against 1.18 times as on March 31, 2021. The Total Outside Liability/Tangible Net Worth (TOL/TNW) stood at 1.85 times as on March 31, 2022 as compared to 2.61 times in the previous year. The weak debt protection metrics of the company is marked by Interest Coverage Ratio of 0.81 times and Debt Service Coverage Ratio at 0.71 times as on March 31, 2022. Net Cash Accruals/Total Debt (NCA/TD) stood at negative levels due to losses incurred in FY'22. Acuité believes that going forward the financial risk profile of the firm is expected to improve with restoration of their profitability levels and no major debt funded capex plans.

Weaknesses

- **Deterioration in business risk profile**

The revenues of BBPL declined to Rs.1332.84 Cr in FY2022 from Rs. 2143.09 Cr in FY2021. The decline in revenue is primarily on account of unavailability of adequate containers due to which the sales of IOP & IOF came down. Further, the company has achieved revenues of Rs.562 Cr(Provisional) till Oct'22.

Moreover, the EBIDTA margin of the company declined to 0.58 per cent in FY22 as compared to 7.61 per cent in FY21 majorly due to significant increase in material cost. A significant rise in the raw material cost of around 75 per cent led to losses in FY22. However, the EBIDTA margin improved to 4.66 per cent in H1FY23 (Provisional).

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 145 days as on 31st March 2022 as compared to 120 days as on 31st March 2021. The GCA days is high on account of a high proportion of other current assets consisting of amount receivables from advance to suppliers, other loans and advances and other receivables and recoveries. However, the debtor period stood moderate at 46 days as on 31st March 2022 as compared to 25 days as on 31st March 2021. Further, the inventory days stood comfortable at 27 days as on 31st March 2022 as compared to 48 days as on 31st March 2021. Acuité believes that the working capital operations of the

firm will remain almost at the same levels as evident from higher receivables over the medium term.

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

The operating margin of the company decreased to 0.58 per cent as on 31st March, 2022 as compared to 7.61 per cent in the previous year, due to non-availability of container and hence demurrage incurred to the company especially in the agri division and remains susceptible to volatility in forex rates in the absence of an adequate hedging mechanism. The Return on Capital Employed (ROCE) of the company stood at 3.31 per cent as on FY2022 as compared to 18.84 per cent as on FY2021. Acuite believes that going forward the company will have low but improving profitability margins due to trading nature of operations.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Growth in scale of operations
- With increase in profitability margins.
- Improvement in financial risk profile.

Material covenants

None

Liquidity Position

Adequate

The company's liquidity position is adequate marked by current ratio of 1.79 times as on March 31, 2022 as compared to 1.31 times as on March 31, 2021. The cash and bank balances stood at Rs 61.58 Cr as on March 31, 2022. Further, the bank limit utilization stood moderate at 83 per cent for the nine-months ended October 2022. In addition to this, the company has availed additional covid loan of Rs. 67.5 Cr, to support operations. However, the company has incurred losses in FY2022 due to non-availability of containers. The working capital intensive nature of operations is marked by high GCA days of 145 days as on March 31, 2022 as compared to 120 days as on March 31, 2021. Acuite believes that going forward the liquidity position of the company will improve due to steady cash accruals.

Outlook: Stable

Acuite believes that the outlook on BBPL will remain 'Stable' over the medium term on account of the long track record of operations, experienced management. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1332.84	2143.09
PAT	Rs. Cr.	(5.86)	51.50
PAT Margin	(%)	(0.44)	2.40
Total Debt/Tangible Net Worth	Times	1.28	1.18
PBDIT/Interest	Times	0.81	4.12

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Trading Entitie: <https://www.acuite.in/view-rating-criteria-61.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite 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
13 Oct 2021	Cash Credit	Long Term	50.00	ACUITE BBB Stable (Assigned)
	Bills Discounting	Long Term	85.00	ACUITE BBB Stable (Assigned)
	Letter of Credit	Short Term	75.00	ACUITE A3+ (Assigned)
	Working Capital Term Loan	Long Term	7.72	ACUITE BBB Stable (Assigned)
	Packing Credit	Long Term	90.00	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
Union Bank of India	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	85.00	ACUITE BBB- Stable Downgraded
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE BBB- Stable Downgraded
Union Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	7.72	ACUITE BBB- Stable Downgraded
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	75.00	ACUITE A3 Downgraded
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	90.00	ACUITE BBB- Stable Downgraded

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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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