



Press Release
Bagadiya Brothers Private Limited
January 23, 2024
Rating Upgraded

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

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BBB**' (Read as **ACUITE Triple B**) from '**ACUITE BBB-**' (read as **ACUITE Triple B minus**) and the short term rating to **ACUITE A3+** (Read as **ACUITE A Three Plus**) from '**ACUITE A3**' (read as **ACUITE A Three**) on the Rs.307.72 Crore bank facilities of Bagadiya Brothers Private Limited (BBPL). The outlook is '**Stable**'.

Rationale for Upgrade

The rating upgrade takes into cognizance the augmentation in business risk profile of the group majorly driven by improvement in scale of operations. The group's revenue increased to Rs 1455.12 Cr in FY2023 as against Rs 1338.55 Cr in FY2022. In FY 2022, the group's revenue mix had changed due to unavailability of iron ore and better orders in agri-business trading. However, since FY2023, its wholly-owned subsidiary Bagadiya Brothers Singapore Pte Limited (BBSPL) continued procuring iron ore fines (IOF) and iron Ore Pellets (IOP) directly from Australian miners while also continuing to procure from its parent company- BBPL and other Indian exporters. This led to increase in revenue from iron ore segment in FY 2023 and it continues for FY2024 as well which commands better price realisation. The trend continued in FY2024, as reflected from revenues of around Rs.1295.71 Cr till six months ended September 2023 (Provisional).

Further, the group's operating margin surged to 6.16% in FY2023 from 1.00% in FY2022 due to better sourcing availability and increase in iron ore share which commands a margin of about 7 to 8% compared to 3 to 4 % from paddy, and increased demand in the international market.

The rating also factors the healthy financial position of the company characterized by a healthy net worth base, modest gearing levels and comfortable debt protection metrics. The rating also draws comfort from established track record and experience management.

However, these strengths are partly offset by the intensive working capital management marked by high GCA days of 155 days for FY2023 as compared to 145 days for FY2022.

About Company

Established in 2002, Bagadiya Brothers Private Limited (BBPL) is a Raipur-based company engaged in trading iron ore fines (IOF), iron ore pellets (IOP), rice, coal, manganese ore, and scrap. The company's revenue primarily comes from IOF and IOP, sourced from manufacturing plants that obtain iron ore from Odisha mines. The board, consists of Mr. Omi Bagadiya, Mr. Anand Kumar Agarwal, Mr. Anurag Agarwal, and Mr. Pankaj Agarwal.

BBPL's clients are globally dispersed, reducing geographical concentration risk. The company

sells IOF and IOP to its wholly-owned overseas subsidiary, Bagadiya Brothers Singapore Pte Limited (BBSPL), which further supplies to China, Singapore and Malaysia. Additionally, BBPL exports rice to South East Asian countries. The company's sourcing cycle is continuous, supported by orders from its subsidiary, eliminating inventory risk. BBPL holds the status of a Three Star Export House granted by the Government of India.

About the Group

The wholly-owned subsidiary, Bagadiya Brothers Singapore Pte Limited (BBSPL), based in Singapore, procuring IOF and IOP from BBPL and Australian miners for sale to international markets.

Unsupported Rating

None

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité 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. The same is on account of common management, the same line of operations and significant operational and financial linkages.

Key Rating Drivers

Strengths

- Long operational track record

With over twenty one years of operation since 2002, the company, led by key promoters, Mr. Omi Bagadiya, Mr. Anand Kumar Agarwal, Mr. Anurag Agarwal, and Mr. Pankaj Agarwal, boasts more than six decades of collective experience. 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 standing experience of the management and believes this will benefit the group going forward, resulting in steady growth in the scale of operations.

- Steady scale of operations

The group's revenue increased to Rs 1455.12 Cr in FY2023 as against Rs 1338.55 Cr in FY2022 and Rs. 2052.21 Cr in FY2021, thereby registering an y-o-y growth of 8.71%. Further, the company has achieved revenues of around Rs.1295.71 Cr till six months ended September 2023 (Provisional). In the FY22, due to unavailability of containers for IOF and IOP, the company could not expand in this business segment and there was a fall in overall revenues as well as margins. BBSPL continued procuring IOF and IOP directly from Australian miners from FY2023 as well as continue to procure from its parent company. This led to increase in revenue from IOF segment in FY 2023 and it continues for FY2024 as well. The group further sells IOF and IOP to Singapore, Dubai, and China among others. The rise in turnover is expected to continue with ongoing supply chain with Australia- providing better sourcing channels and meeting international market demand, especially from China.

In the fiscal year 2023, the increase in agri products was driven by government tenders from Bangladesh and domestic markets. However, during the first six months of FY 2024, the company could not export agricultural products because of exports curbs on commodities such as wheat, rice and sugar. Additionally, the profit margin in this segment is low, around 3 to 4 percent. Consequently, the company is placing greater emphasis on iron ore trading, which offer a higher margin of around 7-8 percent.

The group's operating margin surged to 6.16% in FY2023 from 1.00% in FY2022 due to better sourcing availability and increase in IOF share which commands a margin of about 7 to 8% compared to 3 to 4 % from paddy, and increased demand in the international market. Also, the PAT margin rose to 4.42% in FY2023 compared to a net loss in FY2022 as the group could absorb the interest and depreciation cost due to better operating level profits. The comfortable ROCE levels stood at 18.53% in FY2023, up from 3.31% in FY2022.

Acuité believes the scale of operations of the group would remain healthy with improved profitability margin over the medium term.

- **Healthy financial risk profile**

The financial risk profile of the group is marked by healthy net worth, moderate gearing and comfortable debt protection metrics. The tangible net worth of the group stood at Rs.255.73 Cr as on March 31, 2023 as compared to Rs.195.49 as on March 31, 2022 due to accretion to reserves. The gearing of the group stood moderate at 1.14 times as on 31 March 31, 2023. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.56 times as on March 31, 2023. The debt protection matrices of the group remain comfortable marked by Interest coverage ratio (ICR) of 3.86 times and debt service coverage ratio (DSCR) of 3.73 times for FY2023. The net cash accruals to total debt (NCA/TD) stood healthy at 0.22 times in FY2023.

Going forward, Acuité believes that the financial risk profile will remain healthy over the medium term, supported by healthy internal accrual generation and no major debt funded capex plans.

Weaknesses

- **Working capital intensive nature of operation**

The working capital operations of the group is intensive marked by high gross current asset (GCA) days of 155 days for FY2023 as compared to 145 days for FY2022. The inventory days stood at 46 days as on 31st March 2023 as compared to 27 days as on 31st March 2022. However, the debtor days of the group stood at 21 days in FY2023 as against 46 days in FY 2022. 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. Against this, the group has minimal dependence on its suppliers to support the working capital; creditors stood at 4 days as on March 31, 2023.

Acuité believes that the working capital operations of the group will remain at the similar levels over the medium term.

Rating Sensitivities

- Sustainability of revenue along with improvement in profitability margins
- Elongation of working capital cycle

Liquidity Position

Adequate

The group has adequate liquidity marked by steady net cash accruals of Rs. 64.67 Cr. as on March 31, 2023 as against no long term debt obligations over the same period. The cash and bank balance stood at Rs. 127.24 Cr for FY 2023. Further, the current ratio of the group stood comfortable at 1.81 times in FY2023. Moreover, the bank limit of the group has been ~70.19 percent utilized for the last six months ended in October 2023. However, the working capital operations of the group is intensive marked by high gross current asset (GCA) days of 155 days for FY2023 as compared to 145 days for FY2022. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accruals and absence of any major debt funded capex plans over the medium term.

Outlook:

Acuité believes that the outlook on the group will remain 'Stable' over the medium term on account of the long track record of operations and experienced management. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained

improvement in operating margins, and better working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the group's revenues or profit margins, or in case of deterioration in the group's financial risk profile and liquidity position.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 23 (Actual) | FY 22 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 1455.12 | 1338.55 |
| PAT | Rs. Cr. | 64.28 | (5.86) |
| PAT Margin | (%) | 4.42 | (0.44) |
| Total Debt/Tangible Net Worth | Times | 1.14 | 1.28 |
| PBDIT/Interest | Times | 3.86 | 0.81 |

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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 |
|-------------|--------------------------------|------------|-----------------|--|
| 11 Jan 2023 | Packing Credit | Long Term | 90.00 | ACUITE BBB- Stable (Downgraded from ACUITE BBB Stable) |
| | Cash Credit | Long Term | 50.00 | ACUITE BBB- Stable (Downgraded from ACUITE BBB Stable) |
| | Bills Discounting | Long Term | 85.00 | ACUITE BBB- Stable (Downgraded from ACUITE BBB Stable) |
| | Covid Emergency Line | Long Term | 7.72 | ACUITE BBB- Stable (Downgraded from ACUITE BBB Stable) |
| | Letter of Credit | Short Term | 75.00 | ACUITE A3 (Downgraded from ACUITE A3+) |
| 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 Upgraded |
| Union Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 50.00 | ACUITE BBB Stable Upgraded |
| Union Bank of India | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | 31 Dec 2027 | Simple | 7.72 | ACUITE BBB Stable Upgraded |
| Union Bank of India | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 75.00 | ACUITE A3+ Upgraded |
| Union Bank of India | Not Applicable | Packing Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 90.00 | ACUITE BBB Stable Upgraded |

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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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