

## Press Release

BMW Industries Limited

January 20, 2023



### Rating Reaffirmed & Partly Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	9.04	ACUITE A-   Reaffirmed & Withdrawn	-
Bank Loan Ratings	226.06	ACUITE A-   Stable   Reaffirmed	-
Bank Loan Ratings	73.90	-	ACUITE A2+   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	299.96	-	-
Total Withdrawn Quantum (Rs. Cr)	9.04	-	-

### Rating Rationale

Acuite has reaffirmed the **long-term rating of 'ACUITE A-' (read as ACUITE A minus) and the short-term rating of 'ACUITE A2+' (read as ACUITE A two plus)** to the Rs.299.96 Cr bank facilities of BMW Industries Limited (BMWIL). The outlook is **'Stable'**.

Acuite has withdrawn the long term rating of **'ACUITE A-' (read as ACUITE A minus)** and the short term rating of **'ACUITE A2+' (read as ACUITE A two plus)** on the Rs.9.04 Cr bank facilities of BMW Industries Limited. The rating is being withdrawn on account of request received from the company and NOC received from the banker, on Acuite's policy of withdrawal of ratings.

#### Rationale for the rating

The rating factors in the higher-than-estimated operating income as reflected in increased scale of operations and healthy financial risk profile of BMWIL in FY2022, supported by a long term offtake agreement with Tata Steel Limited (TSL), renewed twice before. Acuite notes that while management have strategically decided to reduce own manufacturing business with increased focus on TSL's secure conversion work, the new TMT conversion arrangement would gradually reflect in BMWIL's earnings in FY2023 and FY2024. Moreover, BMWIL's scale of operations are expected to remain adequately supported by the ramp-up in its tube mill capacity in the last quarter of the current year, driven by the assured off-take by TSL. The rating factors in the stable operating margins on account of the conversion business which is carried out primarily on a cost-plus basis, partly insulating BMWIL's business from the volatility in steel prices. The strategic importance of BMWIL to TSL and the low counter party risks further supports the rating. The rating continues to draw comfort from the extensive experience of the promoters in the steel industry. Acuite notes that BMWIL's sizeable accruals and conservative capital structure have helped it to maintain a healthy financial risk profile. The rating is, however, constrained by the company's working capital intensive nature of operations along with the company's exposure to the inherent cyclicity in the steel industry.

## About the Company

Incorporated in 1999, BMW Industries Limited is a West Bengal based company engaged in processing of continuous galvanized lines on behalf of Tata Steel Limited (TSL) for around three decades. The company converts all the Hot Rolled (HR) materials supplied by Tata Steel limited into Galvanised Corrugated (GC) sheets which are sold under their flagship brand 'TATA Shaktee'. The company is the largest conversion agent supplying galvanized sheets on such a large scale to TSL. The company is also engaged in manufacturing of mild steel, and long and flat products such as tubular poles and structures. In October 2022, the company entered into a long term agreement with TSL for conversion of Billet to TMT bars for a period of 3 years, till September 2025. It has five manufacturing facilities, of which two are in West Bengal and three in Jamshedpur, Jharkhand. The units in West Bengal are dedicated for manufacturing of mild steel, long and flat products. The units in Jamshedpur are dedicated for conversion on behalf of TSL. The company is promoted by Mr. Ram Gopal Bansal and his family.

## Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of BMWIL to arrive at the rating.

## Key Rating Drivers

### Strengths

#### **Long term association with TSL buoyed by experienced management**

The company has a long track record of around four decades in the steel industry and has been associated with TSL since last two decades. The company is promoted by Mr. Ram Gopal Bansal and his family. Currently, his two sons, Mr. Harsh Kumar Bansal and Mr. Vivek Kumar Bansal look after the day-to-day operations of the company. In 2012, the company entered into an agreement to do the conversion work through continuous galvanising line and is the sole conversion agent of TSL for the roofing division. BMW converts all the Hot Rolled (HR) materials supplied by TATA Steel limited into GC sheets which are used mainly for roofing purpose, cover the Steel Structure and Industrial Sheds, Warehousing Buildings, etc. The converted products i.e., GC sheets are then sold by TSL under their flagship brand 'TATA Shaktee'. Currently BMW almost caters to the entire demand of the 'TATA Shaktee' brand. Further, the manufacturing unit of BMW being close to the original manufacturing location of TSL, the company has an added advantage as it ensures lower logistic cost to TSL. Thus, the strategic importance to TSL will continue to benefit BMW in the long run which ensures adequate revenue visibility and sustenance of strong business risk profile.

Acuité believes that the agreements with TSL will result in lower off-take risk and thereby higher revenue visibility over the medium term. Also, while the offtake risk is relatively lower due to presence of long-term contracts and long-term relationships with the key client as well as the improved scenario due to supply-side reforms in the steel industry, overall ramping up of capacities as envisaged, will remain a key monitoring factor.

#### **Limited sensitivity to steel price volatility as over 90 per cent of revenues generated from a cost-plus-based conversion business carried out for TSL**

BMWIL witnessed an improvement in its scale of operations marked by its revenues of Rs. 410.33 Cr in FY2022 as against Rs. 360.60 Crs in FY2021, generating around 91 per cent of its revenue from conversion for TSL in FY22. The decline in revenues in FY21 was on account of lower contribution from sale of own manufactured products and increased focus on high margin and secured business from TSL. For galvanizing line, which is entirely dependent on conversion of products for TSL, BMWIL receives a fixed income per metric tonne of production, which largely insulates the company from volatility in both raw materials and finished goods prices. While the major raw materials are supplied by TSL, the cost of zinc is passed on to TSL, although with a lag. As a result, BMW's susceptibility to volatility in raw

material and finished goods prices is lower, as reflected in its range-bound EBITDA margins in the conversion division, while margins in the manufacturing division remain susceptible to any volatility in prices. The company has achieved revenues of Rs.258.36 Cr (Prov) till H1FY23. The company maintained healthy profitability margins with the operating margin at 25.20 per cent in FY2022 as compared to 26.31 per cent in FY2021, as the conversion segment accounted around 84% of the total revenue in FY22 (FY21: 87%) and contributed majorly to the total absolute EBITDA, thereby earning high and stable margins. The PAT margin also stood strong at 8.00 per cent in FY2022 due to sustained demand from the key customer.

### **Healthy financial risk profile**

The company's financial risk profile is marked by healthy network, comfortable gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs. 460.08 Cr as on March 31, 2022 from Rs.427.68 Cr as on March 31, 2021, aided by sizeable accretion to reserves which kept the capital structure conservative, as reflected by a low gearing of 0.52 times as on March 31, 2022, following repayment of term loans. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 0.74 times as on March 31, 2022 as against 0.81 times as on March 31, 2021. The comfortable debt protection metrics of the company is marked by Interest Coverage Ratio at 4.84 times and Debt Service Coverage Ratio at 1.30 times as on March 31, 2022. The surge in earnings in FY2022 supported by higher accruals led to further improvement in the credit metrics. Net Cash Accruals/Total Debt (NCA/TD) stood modest at 0.32 times as on March 31, 2022. The company has incurred a capex towards modernizing the capacity of its tube mill by around 1, 00,000 metric tonnes (MT) at Howrah unit, which is expected to be commissioned in Q4FY2023. Calibrated capex undertaken by BMWIL over the past three years, funded through internal accruals together with moderate reliance on debt owing to healthy surplus cash accrual generation capacity of the business, has also helped it maintain comfortable leverage. Commensurate returns from the planned capex supported by assured off-take agreement with TSL will remain key credit monitorable for BMWIL.

### **Weaknesses**

#### **Working capital intensive nature of operations**

The working capital intensive nature of operations is marked by high Gross Current Assets (GCA) of 260 days in FY2022 as compared to 264 days in FY2021. High GCA days is on account of high inventory of 164 days in FY2022 as compared to 162 days in FY2021. The company maintains adequate stock of raw materials, mainly zinc in order to execute orders of GP/GC sheets for Tata Steel on time. On an average, zinc consists ~ 35 per cent of the total inventory. BMW has to keep the high inventory of Zinc of ~ 45 days of zinc at factory premises for technical reason, in addition there is a high lead time of Zinc procurement from Hindustan Zinc, and so the company has to keep additional buffer stock of Zinc to cover this lead time. The cost of zinc is reimbursed by TSL, but with a lag. The debtor days also stood high at 102 days for FY2022 as against 82 days for FY2021. The debtor period stretched in FY22 due to change in credit policy by TATA Steel which has been extended by 60 days globally on account of pandemic. Going forward, Acuité believes that the share of TSL in debtors shall remain high over the medium term, considering the management's focus on conversion business.

### **Rating Sensitivities**

- Growth in scale of operations while sustaining operating profitability
- Further elongation of working capital cycle
- Stretch in debtor period, leading to stretched liquidity

### **Material covenants**

None

### **Liquidity Position: Adequate**

The company's liquidity is adequate marked by steady net cash accruals of Rs.75.87 Cr as on

March 31, 2022 as against long term debt repayment of Rs.52.86 Cr over the same period. The current ratio stood comfortable at 1.52 times as on March 31, 2022 as compared to 1.31 times as on March 31, 2021. However, the fund based limit remains utilised at ~80.86 per cent and the non-fund based limit remains utilised at ~89.89 per cent over the seven months ended December, 2022. Further, the working capital management of the company is intensive as reflected by Gross Current Assets (GCA) of 260 days as on March 31, 2022 as against 264 days as on March 31, 2021. Acuité believes that going forward the company will continue to maintain adequate liquidity position owing to steady accruals backed by conversion agreement for TSL which will continue to earn adequate cash flows.

### Outlook: Stable

Acuité believes the company's outlook will remain 'stable' over the medium term on account of its experienced management, long term agreement with TSL and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while sustaining its operating margins or improvement in the working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of further decline in revenues or stretch in working capital cycle leading to deterioration in the liquidity position of the company.

### Other Factors affecting Rating

Not Applicable

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	410.33	360.60
PAT	Rs. Cr.	32.83	(117.65)
PAT Margin	(%)	8.00	(32.63)
Total Debt/Tangible Net Worth	Times	0.52	0.59
PBDIT/Interest	Times	4.84	(2.85)

### 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>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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](https://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Nov 2021	Cash Credit	Long Term	12.00	ACUITE A-   Stable (Assigned)
	Cash Credit	Long Term	33.00	ACUITE A-   Stable (Assigned)
	Working Capital Demand Loan	Long Term	2.13	ACUITE A-   Stable (Assigned)
	Working Capital Demand Loan	Long Term	1.77	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	3.11	ACUITE A-   Stable (Assigned)
	Proposed Bank Facility	Long Term	0.49	ACUITE A-   Stable (Assigned)
	Cash Credit	Long Term	80.00	ACUITE A-   Stable (Assigned)
	Working Capital Demand Loan	Long Term	32.30	ACUITE A-   Stable (Assigned)
	Letter of Credit	Short Term	39.80	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	11.42	ACUITE A2+ (Assigned)
	Working Capital Demand Loan	Long Term	5.96	ACUITE A-   Stable (Assigned)
	Letter of Credit	Short Term	22.68	ACUITE A2+ (Assigned)
	Working Capital Demand Loan	Long Term	7.96	ACUITE A-   Stable (Assigned)
	Working Capital Demand Loan	Long Term	7.95	ACUITE A-   Stable (Assigned)
	Working Capital Demand Loan	Long Term	3.43	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	45.00	ACUITE A-   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
Punjab National Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	22.68	ACUITE A2+   Reaffirmed
Yes Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	11.42	ACUITE A2+   Reaffirmed
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	27.80	ACUITE A2+   Reaffirmed
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A-   Stable   Reaffirmed
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	28.50	ACUITE A-   Stable   Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE A-   Stable   Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	54.50	ACUITE A-   Stable   Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE A2+   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	19.02	ACUITE A-   Stable   Reaffirmed
Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	27.75	ACUITE A-   Stable   Reaffirmed
Bank of Baroda	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	1.44	ACUITE A-   Stable   Reaffirmed
State Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	26.24	ACUITE A-   Stable   Reaffirmed
State Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	16.15	ACUITE A-   Stable   Reaffirmed
Punjab National Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	6.48	ACUITE A-   Stable   Reaffirmed
Punjab National Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	3.98	ACUITE A-   Stable   Reaffirmed
Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	5.96	ACUITE A-   Reaffirmed & Withdrawn
		Working Capital						ACUITE A-

Bank of India	Not Applicable	Demand Loan (WCDL)	Not available	Not available	Not available	Simple	3.08	Reaffirmed & Withdrawn
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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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