

Press Release

Bekay Engineering Corporation

February 03, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	63.83	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	60.00	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	123.83	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of 'ACUITE BBB-' (read as ACUITE triple B minus) and the short term rating of 'ACUITE A3' (read as ACUITE A three) on the Rs. 123.83 Cr bank facilities of Bekay Engineering Corporation (BEC). The outlook is 'Stable'.

The rating on BEC is driven by the extensive experience of the management, established track record of over five decades and the firm's healthy growth in revenue and operating profitability margin, buoyed by the healthy order book position. The rating further draws comfort from the comfortable financial risk position characterized by high net worth, low gearing and moderate debt protection metrics. However, the rating is constrained by the elongated working capital cycle and high order book concentration in the steel sector.

About the Company

Chhattisgarh based BEC was set up in 1967 by late Mr. Balkrishnan Gupta and his family members as a partnership firm. Initially, the firm started as an ancillary to the Bhilai Steel Plant and subsequently started executing turnkey projects on an engineering, procurement and construction basis and manufactures equipment, spares and components for steel plants, the Indian Railways and other core sectors. Besides fully integrated steel plants, the firm specialises in manufacturing complete kiln and cooler assemblies for sponge iron plants. The operations of the firm is currently managed by the second generation directors, Mr. Vijay Kumar Gupta and Mr. Nitin Gupta.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and long track record of operations

Established in 1967, BEC is one of the prominent players that provide sponge iron and other steel projects to large customers across the country. The firm is currently headed by 7 partners

who are supported by a team of skilled professional for various specialized disciplines. The promoters have extensive experience of over five decades in the iron and steel industry which has helped the firm to establish strong relationships with reputed customers and suppliers such as SAIL, IOCL, Danielli India Ltd, Jindal Steel and Power Ltd., and more. Acuité believes the firm's established track record of operations, management's rich experience and steady funding support will continue to support the business, going forward.

Comfortable financial risk profile

The firm's comfortable financial risk profile is marked by high net worth, low gearing and moderate debt protection metrics. The net worth of the firm stood high at Rs.112.24 Cr as on 31 March, 2021 as against Rs.108.80 Cr as on 31st March, 2020. Acuité has considered the unsecured loans of Rs.35.00 Cr as a part of networth since the management has undertaken to maintain the same in the business over the medium term. The gearing stood below unity at 0.42 times in FY2021 as against 0.33 times in FY2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.73 times in FY21 as against 0.74 times in FY20. Further, moderate debt protection is marked by interest coverage ratio (ICR) at 1.68 times and DSCR at 1.44 times in FY2021. The NCA/TD stood at 0.14 times in FY2021. Acuité believes that the financial risk profile of the firm will remain at comfortable levels over the medium term backed by steady net cash accruals and no major debt funded capex plans.

Healthy growth in the business risk position

BEC's has achieved revenues of Rs.143.47 Cr in FY21 as against Rs.115.98 Cr in FY20, thereby registering a growth of nearly 24 per cent in FY21. Further, the firm has booked revenues of Rs.188 Cr till 31 st Dec'21 (prov.). The improvement in its top line is due to better execution of projects and a healthy order book position. The firm generated 20 per cent of its revenue from exports in FY21 and 61 per cent of its total revenue from the sponge iron plant manufacturing segment. The firm has a strong order book position to the tune of Rs.330 Cr as on 31st Oct'21, to be executed in 12-18 months period, imparting comfortable revenue visibility.

Further, the firm's EBITDA stood at Rs.22.47 Cr till Dec'21, surpassing the operating income in FY21, due to the management's focus on higher margin sponge iron plant work. In addition, BEC has started entering into a quarterly rate contract with SAIL, Bhilai, on receipt of confirmed orders to acquire the required quantity of steel at a pre-fixed rate, in order to mitigate price risk. Acuité believes the continuous order flow will enable the firm to scale up its operations further over the medium term.

Weaknesses

Working capital intensive nature of operations

The working capital operation of the firm improved but is intensive marked by high GCA (Gross Current Assets) Days of 373 days in FY21 as compared to 427 days in the previous period. High GCA days are on account of high inventory period which stood at 270 days in FY21 as compared to 355 days in FY20. The firm has to maintain huge stock of steel and other materials due to the long manufacturing cycle for such products apart from the high lead time to procure materials in bulk. The firm has comfortable debtor period at 46 days in FY21 as against 50 days in FY20 as the sponge iron orders are funded via advances from customers and are milestone based. Acuité believes the working capital cycle will improve further yet remain intensive over the medium term as evident from the high inventory holding period and working capital intensive nature of the business.

Susceptibility to volatility in raw material prices

Raw material cost accounts for 60-65 per cent of the total cost. As the prices of the key input, steel, is volatile, any increase may not be immediately passed on to customers especially in fixed price contracts. Hence, profitability remains susceptible to fluctuations in raw material prices. However, now the firm books steel in bulk as soon as it gets an order in order reduce the price fluctuation risk.

Rating Sensitivities

- Growth in the scale of operations while improving its profitability margins
- Elongation in the working capital cycle
- Any downturn in the end user i.e. steel industry and its impact on BEC's operations

Material covenants

None

Liquidity Position: Adequate

The firm has an adequate liquidity position marked by net cash accruals of Rs.6.72 Cr as against a long term debt obligation of only Rs.1.63 Cr during the same period. The current ratio stood strong at 2.59 times in FY21 as compared to 1.93 time in FY20, due to increase in the other current assets. The firm has unencumbered cash and bank balances of around Rs.1.27 Cr in FY21 as compared to Rs.0.21 Cr in FY20. The working capital limits remained utilized at only 14 percent for six months ended October, 2021. The promoters had in the past extended funding support in the form of capital infusion and unsecured loans to meet its working capital requirements, on a steady basis. However, the firm availed a Covid loan of Rs.12.24 Cr and a loan moratorium. Acuité believes that the liquidity position of the firm will remain at similar levels over the medium term.

Outlook: Stable

Acuité believes that the outlook on BEC will remain 'Stable' over the medium term on account of the experience of the promoters, long track record of operations and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in its scale of operations, while improving its profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any further elongation in its working capital cycle leading to deterioration of its liquidity position.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	143.47	115.98
PAT	Rs. Cr.	3.47	2.53
PAT Margin	(%)	2.42	2.18
Total Debt/Tangible Net Worth	Times	0.42	0.33
PBDIT/Interest	Times	1.68	1.61

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

Not Applicable

Any other information

Not Applicable

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

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 Assigned
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE A3 Assigned
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 Assigned
IDBI Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB- Stable Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- Stable Assigned
IDBI Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB- Stable Assigned
Axis Bank	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	11.70	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.02	ACUITE BBB- Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	7.50	ACUITE BBB- Stable Assigned
HDFC Bank Ltd	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	2.46	ACUITE BBB- Stable Assigned
HDFC Bank Ltd	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	1.58	ACUITE BBB- Stable Assigned
IDBI Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	0.60	ACUITE BBB- Stable Assigned
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IDBI Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	0.96	BBB- Stable Assigned
Axis Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	1.99	ACUITE BBB- Stable Assigned
Axis Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	1.00	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	1.68	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	1.50	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	0.84	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

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