

Press Release

BGR Mining And Infra Limited

March 30, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	151.50	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	748.50	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	900.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

*Refer Annexure for details

Rating Rationale

Acuite 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**) to the Rs.900.00 Cr bank facilities of BGR Mining and Infra Limited (BGRMIL). The outlook is 'Stable'.

The ratings assigned to the bank facilities of BGRMIL derive comfort from its experienced promoters, long track record of operations, robust business risk position with a strong pipeline of orders and revenue of Rs.1980 Cr till Feb'22 (prov.) supported by a reputed clientele. The ratings also factor in the above average financial risk position characterised by strong networth base, low gearing and moderate debt protection metrics. The ratings, however, remain constrained by the stretched liquidity position marked by high limit utilisation, continuous debt funded capex towards equipment purchase, working capital intensive nature of business and perceived regulatory risk in the mining industry.

About the Company

Incorporated in 2011, BGR Mining & Infra Limited (BGRMIL) is a Hyderabad based company majorly engaged in two business segments – Contract Mining & Mine Development and Operations (MDO). BGR (formerly, B Girijapathi Reddy & Co.) was set up in 1988 as a partnership firm by Mr. Girijapathy Reddy, Mr. Bathina Umapathy Reddy and Mr. I Sudhakara Reddy. It was reconstituted as a private limited company in 2011. The company has a strong presence across 6 states with a fleet of over 1,200 HEMM (Heavy Earth Moving Machineries). The company is currently headed by Mr. B. Umapathy Reddy, Mr. I. Sudhakara Reddy and the second generation directors.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of BGRMIL to arrive at this rating.

Key Rating Drivers

Strengths

Experienced management and long track record of operations

BGR (formerly, B Girijapathi Reddy & Co.) was set up in 1988 as a partnership firm by Mr. Girijapathy Reddy, Mr. Bathina Umapathy Reddy and Mr. I Sudhakara Reddy. It was reconstituted as a private limited company in 2011. The company is currently headed by founder directors Mr. B. Umapathy Reddy, Mr. I. Sudhakara Reddy and the second generation directors. The company is involved in coal excavation and transportation since over two decades now and was initially carrying out these activities for the subsidiaries of Coal India Limited. Over the years, the company has started catering to several other reputed companies also like Bharat Coking Coal Limited, West Bengal Power Development Corporation Limited (WBPDCCL) (rated at ACUTE A-/Stable/A2+) only to name a few. Extensive experience of the promoters and operating track record of more than three decades in the industry has helped them in understanding the market dynamics & establishing strong relationship with suppliers and bagging large size tenders. Acuité believes the vast experience of the management will support the business, going forward.

Above average financial risk profile

The company's financial risk profile is above average marked by strong networth base, low gearing and moderate debt protection metrics. The tangible net worth of the company increased to around Rs.896 Cr as on March 31, 2021 from Rs.865 Cr as on March 31, 2020 on account of healthy accretion to reserves. Acuité has considered unsecured loans of Rs.94.90 Cr as quasi equity as the management has undertaken to maintain this amount in the business over the medium term. Gearing of the company has remained below unity at 0.47 times as on March 31, 2021 as against 0.43 times as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.11 times as on March 31, 2021 from 1.15 times as on March 31, 2020. The moderate debt protection metrics of the company is marked by Interest Coverage Ratio at 3.67 times and Debt Service Coverage Ratio (DSCR) at 1.04 times as on March 31, 2021. NCA/TD stood at 1.34 times in FY2021 as against 0.48 times in FY2020. Going forward, Acuité believes that the financial risk profile of the company will improve backed by steady accruals and no major debt funded capex plans.

Robust order book position along with high operating profitability margins

BGRMIL has a strong and geographically diversified order book position. As on 31st Jan, 2022, the unexecuted orders in hand stood at 27,850 Cr, most of which are long term contracts spanning over 5-25 years. The company has a strong revenue stream from FY23, which is evident from the fixed revenue visibility of around Rs.1400-1500 Cr from the long term projects of West Bengal Power Development Corporation Limited (WBPDCCL), Vedanta, Odisha Coal and Power Ltd. and Mahanadi Coalfields Ltd.

The operating margin stood 19.09 per cent during FY2021 as against 23.91 per cent in FY2020. Further, the margins have improved to 20.19 per cent till Feb'22 (prov.). The PAT margin improved to 0.69 per cent FY2021 as against negative margins in FY2020. The operating margins decreased in FY21 on account of increase in fuel (diesel, Oil and lubricants) cost, however, PAT margin improved but remained low in FY21 due to high interest costs of the company. The company is focussing on MDO contracts which gains relatively better margins than OB removal contracts. In addition, the company has escalation clause in all of its contracts and the prices can be passed on a quarterly or month basis, depending upon the nature of the contract.

Weaknesses

Working capital intensive nature of operations

BGRMIL operates in an industry that has high working capital requirement. The company relies on working capital limits for its daily operations for fuel along with payments to labour and

participation for tender/e-auction. The working capital cycle of the company is intensive marked by Gross Current Assets (GCA) of 208 days as on 31st March 2021 as compared to 231 days as on 31st March 2020. The GCA days are high majorly due to the high amount of unbilled revenues. However, the debtor period is efficient at 60 in FY21 as compared to 57 days in FY20. The company generally receives payments within 30-45 days from its principal. The inventory holding is also efficient at 18 day in FY21 as compared to 30 days in the previous period. Acuité believes that the working capital operations of the company will remain at similar levels over the medium term due to high amount of unbilled revenues and advances of the company.

Regulatory risk in the mining sector

The tender-driven nature of contracts poses huge competition and puts pressure on the profit margins of the players. Indian mining industry is highly regulated by the government of India as the risk attached to ban on mining activities of its client due to sudden change in government policy. Hence, any major regulatory changes may impact the business operations of the company. However, as majority of the contracts for BGRMIL is from Public Sector Undertakings (PSUs), the risk is moderated to a certain extent.

Rating Sensitivities

- Improvement in PAT margins
- Improvement in the liquidity position
- Elongation in the working capital cycle
- Deterioration in capital structure

Material covenants

None

Liquidity Position: Stretched

The company's liquidity position is stretched marked by fund based limit utilisation at 96 per cent over six months ended February, 2022. The current ratio stood moderate at 1.18 times as on March 31, 2021 as compared to 0.97 times as on March 31, 2020. The company had delays in the repayment of equipment loans in H1FY22 due to delay in revenue realization from MDO projects, however, the same is regularised and repaid in full in Aug-Sept'21. The company has net cash accruals of Rs.203.60 Cr in FY21 as against long term debt repayment of Rs.190.96 Cr over the same period. The company has unencumbered cash and bank balance of Rs.2.22 Cr as on 31st March, 2021. Going forward, Acuité believes the liquidity position of the company will remain sensitive to timely realisation from its customers.

Outlook: Stable

Acuité believes that the outlook on BGRMIL will remain 'Stable' over the medium term on account of the experience of the promoters, long track record of operations and strong order book position and above average financial risk profile. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its liquidity position along with a higher than expected improvement in its PAT margins. Conversely, the outlook may be revised to 'Negative' in case of any significant elongation in its working capital management leading to further deterioration of its liquidity position.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	1719.48	1331.30
PAT	Rs. Cr.	11.90	(19.78)
PAT Margin	(%)	0.69	(1.49)
Total Debt/Tangible Net Worth	Times	0.47	0.43
PBDIT/Interest	Times	3.67	2.76

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>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	183.50	ACUITE A3 Assigned
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	310.00	ACUITE A3 Assigned
Bank of Baroda	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE A3 Assigned
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB- Stable Assigned
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB- Stable Assigned
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	26.50	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	185.00	ACUITE A3 Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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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