

Press Release

BGR Deco Consortium Private Limited

May 20, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	40.00	-	ACUITE A3 Assigned
Bank Loan Ratings	60.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs.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) on the Rs.100.00 Cr bank facilities of BGR DECO Consortium Private Limited (BDCPL). The outlook is '**Stable**'.

The rating factors in the sound business risk position of the group characterised by its increasing revenues, strong pipeline of order from Northern Coalfields Limited in the near term and experienced management. The ratings also factor in the strong financial risk position and moderate yet improving liquidity profile. The ratings, however, remain constrained by the high inter-group exposure, significant order book concentration, working capital intensive nature of business and perceived regulatory risk in the mining industry.

About Company

Incorporated in June, 2020, BGR Deco Consortium Private Limited (BDCPL) is a joint venture of BGR Mining & Infra Limited (BGRMIL) (rated at ACUITE BBB-/Stable/A3) and Dhansar Engineering Company Private Limited (DECO), in the ratio 51:49 respectively. Initially, the JV was formed as association of persons (AOP) but on Mar, 2022, the AOP was taken over by Private Limited company with the same shareholding pattern. The company has bagged a large size tender from Northern Coalfields Limited and the same is subcontracted to BI Mining Private Limited (BMPL). The company is currently headed by Mr. Harsh Agarwalla from DECO and Mr. Induru Dheeraj from BGRMIL.

About the Group Company

Incorporated in March 2016, BI Mining Private Limited (BMPL) is a Hyderabad, Telangana based company. The company is currently executing the entire work of overburden removal at Bina Open Cast Project (OCP) of Northern Coalfields Limited (NCL) subcontracted to them by BGR DECO Consortium Private Limited (BDCPL). Work execution is being carried out through leased and hired vehicles. The company is currently headed by Mr. Umapathy Reddy Bathina

and Mr. Induru Sudhakara Reddy.

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 BI Mining Private Limited (BMPL) and BGR DECO Consortium Private Limited (BDCPL), hereby referred to as 'BI group', on account of common management, same line of business and strong operational linkages between the entities.

Key Rating Drivers

Strengths

Experienced management

Promoted by the Reddy family who has long track record of coal excavation and transportation since over three decades. The group has the technical and financial support of Dhansar Engineering Company Pvt Ltd (DECO) who have been in the business of contract mining since 2003. 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 that the vast experience of the management will continue to support the business, going forward.

Sound business risk profile

The operations of the group commenced in Oct, 2020. The scale of operations is healthy with revenue of Rs.480 Cr in FY22 (prov.) as compared to Rs.118 Cr in FY21. With order book of Rs.1324 Cr to be executed in the next three years, revenue visibility is comfortable. Further, the company plans to focus on OB removal and will participate in more upcoming tenders in the next few months. The EBITDA margins have remained high at around 30 per cent and PAT margin of 16.19 per cent in FY22 (prov.). High profitability has translated into robust RoCE levels of around 82 per cent in FY22 (prov.) as against 49 per cent in FY21.

Strong financial risk profile

The company's strong financial risk profile is marked by high networth base, low gearing and robust debt protection metrics. The tangible net worth of the company improved to Rs.121.39 Cr as on 31st March, 2022 (Prov.) from Rs.18.65 Cr as on 31st March, 2021 due to healthy accretion to reserves. Acuité has considered unsecured loans of Rs.25.00 Cr as on March 31, 2022 as quasi-equity as the management has undertaken to subordinate the same when bank facilities are sanctioned and maintain it in the business during the tenure of the bank facilities. Gearing of the group decreased to 0.46 times as on March 31, 2022 (prov.) as against 5.73 times as on March 31, 2020 as the reserves increased due to high absolute profitability in FY22 (prov.). The Total outside Liabilities/Tangible Net Worth (TOL/TNW) reduced to 3.36 times as on March 31, 2022 (prov.) as against 24.38 times as on March 31, 2020. The strong debt protection metrics of the group is marked by Interest Coverage Ratio at 11.97 times and Debt Service Coverage Ratio (DSCR) at 5.77 times as on March 31, 2022 (prov.). NCA/TD stood at 1.78 times in FY2022 (prov.). Going forward, Acuité believes that the financial risk profile of the group will remain at comfortable levels backed by steady accruals and no major debt funded capex plans.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations marked by Gross Current Asset (GCA) of 122 days in FY2022 (prov.) as compared to 252 days in FY2021 due to decrease in debtor days from 92 days in FY2021 to 52 days in FY2022 (prov.) with subsequent increase in the scale of operations. FY22 was the first full year of operations for the group. Monthly billing is done for

Northern Coalfields Limited (NCL) and post that the group receives payment within a week. The inventory days stood efficient at 5 days in FY2022 (prov.) compared to 10 days in FY2021. Acuité believes that the working capital operations of the group will remain intensive over the medium term as evident from high amount of security deposits in mining and OB removal sector.

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 the ongoing contract of the group is from Public Sector Undertakings (PSUs), the risk is moderated to a certain extent.

Rating Sensitivities

- Sustenance of the business risk position
- Deterioration in the working capital cycle
- Ability to bag more tenders

Material Covenants

None

Liquidity Position: Moderate

The company's liquidity position is moderate marked by expected net cash accruals of Rs.99.47 Cr in FY2022 (prov.) as against long term debt repayment of Rs.7.16 Cr over the same period. The group has unencumbered cash and bank balances of Rs.0.50-1.00 Cr. The group has funding support from its directors and group companies and also a corporate guarantee provided by Dhansar Engineering Company Pvt Ltd (DECO) towards the equipment finance of BDCPL. However, current ratio of the group is below unity at 0.78 times as on March 31, 2022 (prov.) as against 0.38 times in FY21. Acuité believes that going forward the group's liquidity position will improve due to enhanced net cash accruals.

Outlook: Stable

Acuité believes that going forward, the outlook on the group will remain 'Stable' over the medium term on account of their experienced management, sound business risk position and strong financial risk profile. The outlook may be revised to 'Positive' in case of more than anticipated improvement in its revenues or working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in revenues and profitability or working capital cycle leading to further deterioration in liquidity position of the group.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	117.97	0.00
PAT	Rs. Cr.	14.86	(0.31)
PAT Margin	(%)	12.60	0.00
Total Debt/Tangible Net Worth	Times	5.73	0.14
PBDIT/Interest	Times	4.28	(9.93)

About the Rated Entity - Key Financials (Standalone)

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	197.07	-
PAT	Rs. Cr.	1.39	-

PAT Margin	(%)	0.70	-
Total Debt/Tangible Net Worth	Times	58.93	-
PBDIT/Interest	Times	1.80	-

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

Not Applicable

Any Other Information

Not Applicable

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>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A3 Assigned

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About Acuité Ratings & Research

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