

Press Release

Bhawani Industries Private Limited

February 23, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	70.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	70.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.70.00 Cr bank facilities of Bhawani Industries Private Limited. The outlook is '**Stable**'.

Rating Rationale

The rating factors in the steady business risk profile and healthy financial risk profile marked by low gearing and comfortable debt protection metrics. The rating also reflects the extensive experience of the promoters in the steel industry and the efficient working capital management. The adequate liquidity position of the company, which is reflected in sufficient net cash accruals, further support the rating. However, these strengths are partially offset by moderate capacity utilization, susceptibility to intense competition, volatility in raw material prices and cyclical in the end user industries.

About the Company

Incorporated in 1999, Bhawani Industries Private Limited (BIPL) is engaged in the manufacturing of extensive array of Cast Iron Castings, Alloy Steel Casting, Steel Billet and many more. The operations of the company were taken over by the current promoters of Royal Group in October 2019 directly from the old promoters (One Time Settlement). Both the initial promoter/directors Shri Jai Parkash Goyal and Shri Sarwan Goyal and their related family members retired from the Board of directors giving off their equity to the new management. Mr. Sanjiv Sood is the current Promoter of BIPL, with 31% stake in the company as on March 31, 2022. The total installed capacity for billets, rolling mill unit and foundry unit is 160000 MTPA, 112000 MPTA and 15000 MTPA respectively.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of BIPL to arrive at the rating.

Key Rating Drivers

Strengths

Extensive experience of the promoters

The promoter of the company, Mr. Sanjiv Sood has around thirty-five years of experience in the steel manufacturing industry. The other Directors of the company also have extensive experience in this industry and their strong understanding of the market dynamics shall

continue to support the business. Royal Group (acquiring company) is among the leading manufacturer of iron and steel products since 1973. Further, since the current promoters took over the company in October 2019, they have infused Rs.23.5 Cr via equity in FY2021 and extended unsecured loans from time to time. Acuité believes the extensive experience of the management will continue to benefit the company going forward, resulting in steady growth in the scale of operations.

Healthy financial risk profile

The company's financial risk profile is marked by healthy network, low gearing and comfortable debt protection metrics. The tangible network of the company stood at Rs.103.48 Cr as on March 31, 2022 as against Rs.94.79 Cr in the previous year due to accretion of reserves. The gearing of the company increased in FY2022 owing to incremental working capital requirements, but still stood comfortable at 0.63 times as on March 31st 2022 as against 0.19 times in the previous year. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.37 times as on March 31st, 2022 as against 0.81 times in the previous year. The debt protection metrics of the company declined in FY2022 as the company has raised short term debt to the tune of Rs.62.91 Cr in FY2022. However, both the Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) still stood comfortable at 2.43 times and 2.97 times respectively as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.21 times as on March 31, 2022. Acuité believes that going forward, the financial risk profile of the company will remain healthy backed by steady accruals and no major debt funded capex plans. Acuite also notes that the increased Debt/EBITDA ratio in FY2022 is primarily due to the working capital limits only, in absence of any term debts. Further, since the company is yet to achieve the optimum capacity utilization levels, Acuite does not foresee any significant debt laden capex in the near to medium term. This in turn will help the company in maintaining comfortable debt protection metrics, with ramp up in the existing scale of operations.

Efficient working capital management

The working capital management of the company is marked by increased but efficient Gross Current Assets (GCA) of 87 days as on March 31st, 2022 as compared to 69 days as on March 31st, 2021, owing to efficient inventory policy and receivable collection cycle. The company maintains a moderate level of inventory of around 1-1.5 months. Further, the debtor period also stood comfortable at 26 days only as on March 31st, 2022 as compared to 25 days in the previous year. Sustenance of efficient working capital management will remain a key rating sensitivity factor.

Steady scale of operations

The scale of operations of the company had witnessed improvement in FY2022 marked by significant increase in revenue of Rs.579.08 Cr in FY2022 as against Rs.360.08 Cr in FY2021. This growth in revenue is majorly due to increase in both average realization and sales volume of billet, rolling mill products and foundry unit. The company has booked a revenue of Rs.498.29 Cr till December 2022 (Prov). Further, the average realization for all the items has also increased in the current fiscal.

The operating margin of the company has increased marginally to 2.73 per cent in FY2022 as against 2.69 per cent in FY2021 due to cost rationalization. The PAT margin improved in FY2022 to 1.48 per cent as compared to 1.20 per cent in FY2021. The increase in profitability margins translated into moderate Return on Capital Employed (ROCE) of the company, which stood at 8.42 per cent as on March 31, 2022 as compared to 6.34 per cent as on March 31, 2021. Acuite expects that the operating margins shall improve in the medium term backed by steady demand, increased realization coupled with rising infrastructure activity would continue to drive steel demand in India.

Weaknesses

Moderate to low capacity utilization

Though the capacity utilization of the induction furnace increased in FY2022, it is still on the lower end. Further, the utilization levels of the rolling mill have increased over the years but is still under utilized as currently the company manufactures limited range of round products. However, the company is upgrading and automating the rolling mills, which would help in ramping up the capacity utilization significantly in the medium term. Further, with the foundry unit having started in FY2021, achievement of optimum capacity utilization by plants and further scale up in production would remain a key rating sensitivity factor.

Susceptibility of profitability to volatility in raw material prices and cyclicalities in the end user industries

The company's performance remains vulnerable to cyclicalities in the steel sector given the close linkage between the demand for steel products and the domestic and global economy. The end-user segments such as real estate, civil construction and engineering also display cyclicalities. Further, operating margins are vulnerable to volatility in the input prices as well as realisation from finished goods. The prices and supply of the raw material, directly impacts the realisations of finished goods. Any significant reduction in the demand and prices adversely impacting the operating margins and cash accruals of the company will remain a key monitorable.

Rating Sensitivities

- Growth in revenue along with improvement in profitability margins.
- Optimum utilization of production capacity.
- Sustenance of working capital cycle.

Material covenants

None.

Liquidity Position Adequate

The company's liquidity position is adequate marked by net cash accruals of Rs.13.49 Cr in FY2022 as against no long term debt repayment obligation. Further, the current promoters have extended unsecured loan since acquisition as and when required, which provides financial flexibility to the company. The current ratio stood moderate at 1.30 times as on 31st March, 2022 as compared to 1.63 times as on 31st March, 2021. The cash and bank balance stood at Rs.2.34 Cr as on March 31, 2022. Moreover, the company's efficient working capital management is reflected from Gross Current Assets (GCA) of 87 days in FY2022 as compared to 69 days in FY2021. However, the fund based limit remained utilised at 89.87 per cent for seven months ended December 2022. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on the company will be 'Stable' over the medium term on account of the experienced management, sound business risk profile and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or deterioration in the capacity utilization levels and elongation in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	579.08	360.08
PAT	Rs. Cr.	8.56	4.31
PAT Margin	(%)	1.48	1.20
Total Debt/Tangible Net Worth	Times	0.63	0.19
PBDIT/Interest	Times	2.43	5.43

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, Acuite 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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE BBB- Stable Assigned
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

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