



Press Release
BHAWANI INDUSTRIES PRIVATE LIMITED
November 30, 2023
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	35.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	70.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	105.00	-	-

Rating Rationale

Rating Rationale

Acuite has reaffirmed 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. Also, Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.35.00 Cr bank facilities of Bhawani Industries Private Limited. The outlook is '**Stable**'.

Rationale for Reaffirmation

The rating takes into cognizance the augmentation in business risk profile of the company majorly driven by improvement in scale of operations. The revenue from operations of the company increased to Rs.658.37 Cr in FY2023 as against Rs.579.08 Cr in FY2022 on account of increase in both average realisation and sales volume of billet and foundry unit. Furthermore, the company's operating profit margin has increased marginally to 2.86 per cent in FY2023 as 2.73 per cent in FY2022 due to cost rationalization.

The rating also factors the healthy financial risk profile of the company characterized by a healthy net worth base, low gearing levels and comfortable debt protection metrics. The rating also draws comfort from established track record of experienced promoters.

The rating takes into account the efficient working capital management marked by improving Gross Current Assets (GCA) to 66 days for FY2023 compared to 87 days for FY2022.

However, these strengths are partially offset by strong competitive pressure and inherent cyclical patterns in the steel sector.

About the Company

Established in 1999, Bhawani Industries Private Limited (BIPL) specializes in producing a wide range of products including steel billets and rolling mill like cast iron castings, alloy steel castings. The company, led by Mr. Sanjiv Sood and Mr. Jatin Sood are the promoters of BIPL in Fatehpur, Punjab. Their production capabilities include an installed capacity of 160,000 MTPA for billets, 112,000 MTPA for the rolling mill unit, and 15,000 MTPA for the foundry unit.

Unsupported Rating

Not Applicable

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record and skilled promoters with improving scale of operations**

Mr. Sanjiv Sood, the company's promoter, boasts thirty-five years of expertise in the steel manufacturing sector. The other Directors similarly possess substantial experience in the steel industry which further supports the business profile. The company has been able to garner healthy relationship with both its customers and suppliers. Acuité believes that the experience of the management is expected to support the business risk profile over the medium term.

The scale of operations of the company had witnessed improvement in FY2023 marked by significant increase in revenue of Rs.658.37 Cr in FY2023 as against Rs.579.08 Cr in FY2022. This growth in revenue is majorly due to increase in both average realisation and sales volume of billet and foundry unit. The company has booked a revenue of Rs.318.52 Cr till September 2023.

Furthermore, the operating margin of the company has increased moderately to 2.86 per cent in FY2023 as 2.73 per cent in FY2022 due to cost rationalization. The profit after tax (PAT) margin marginally decreased to 1.09 per cent in FY 2023 as compared to 1.48 per cent in FY2022, primarily due to deferred tax considerations. The return on capital employed (ROCE) levels stood at about 8.28 per cent in FY2023.

Acuite expects that the operating margins shall remain range bound at similar levels over the medium term backed by steady demand, increased realization coupled with rising infrastructure activity would continue to drive steel demand in India.

- **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.110.57 Cr as on March 31, 2023 as against Rs.103.48 Cr as on March 31, 2022 due to accretion of reserves. The gearing of the company stood low at 0.61 times as on 31st March 2023. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.02 times in FY2023. The debt protection metrics of the company remain comfortable marked by Interest coverage ratio (ICR) of 2.79 times and Debt Service Coverage Ratio (DSCR) of 2.80 times for FY2023. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.18 times as on March 31, 2023.

Also, the company is currently in the process of updating and automating its rolling mills. Previously, it only produced round and square products, but now it's expanding its production to include flat products in order to improve capacity utilization. The total cost of the project is Rs. 7 Cr which will be funded through debt of Rs. 5.00 Cr and Rs. 2.00 Cr from internal accruals.

Acuité believes that going forward, the financial risk profile of the company will remain healthy backed by steady accruals despite having low debt funded capex plans.

- **Efficient working capital management**

The company's working capital management is efficient in nature marked by improving Gross Current Assets (GCA) of 66 days in 31st March 2023 as compared to 87 days in 31st March 2022, owing to efficient inventory policy and receivable collection cycle. The inventory period stood at 43 days as on March 31, 2023 as compared to 44 days as on 31st March 2022. Also, the debtors stood at 16 days in FY2023 as compared to 26 days in FY2022. Moreover, the GCA days of the company has also emanates from the other current asset, which mainly consists of advances to suppliers and balances with revenue authority. Against this, the

company has creditors, which stood at 14 days as on March 31, 2023. The company relies on its bank lines to meet its working capital requirement which stood utilised at ~89.86% over last 6 months ended September 2023.

Acuité believes that the working capital operations of the company will remain at same level over the medium term.

Weaknesses

- **Strong competitive pressure and inherent cyclical patterns in the steel sector**

The steel rolling sector continues to lack organization and cohesion. The company faces strong competitive forces from both organized and unorganized participants, compounded by the cyclicity inherent in the steel industry. Moreover, the government's emphasis on steel-intensive sectors like railways and infrastructure increases vulnerability; any prolonged drop in demand would negatively affect steel companies' performance. Furthermore, the fluctuation in prices of raw materials and goods is considerably unstable. The business also contends with rivalry from more affordable imports from Indonesia and China. A substantial rise in imports could detrimentally affect earnings and quantities, making this a crucial aspect to watch.

Rating Sensitivities

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

All Covenants

Not Applicable

Liquidity Position

Adequate

The company's liquidity position is adequate marked by net cash accruals of Rs.12.48 Cr in FY2023 and absence of any long term debt repayment obligation. Moreover, the company's efficient working capital management is reflected from Gross Current Assets (GCA) of 66 days as on March 31, 2023 as compared to 87 days as on March 31, 2022. However, the current ratio stood moderate at 1.15 times as on 31st March, 2023. Further, the fund based limit remained utilised at 89.86 per cent over last 6 months ended September 2023. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals and low debt funded capex plans.

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 further deterioration in the capacity utilization levels and elongation in its working capital cycle.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	658.37	579.08
PAT	Rs. Cr.	7.17	8.56
PAT Margin	(%)	1.09	1.48
Total Debt/Tangible Net Worth	Times	0.61	0.63
PBDIT/Interest	Times	2.79	2.43

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

Not Applicable

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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Feb 2023	Cash Credit	Long Term	40.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	30.00	ACUITE BBB- 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
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE BBB- Stable Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE BBB- Stable Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE BBB- Stable Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.00	ACUITE BBB- Stable Assigned

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Dipti Choudhary Analyst-Rating Operations Tel: 022-49294065 dipti.choudhary@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.