Press Release
Bhaskar Steel And Ferro Alloy Private Limited
February 05, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	45.00	ACUITE BBB | Stable | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	45.00	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of '**Acuité BBB' (read as Acuité t riple B)** on the Rs. 45.00 Cr bank facilities of Bhaskar Steel and Ferro Alloy Private Limited (BSFAPL). The outlook remains '**stable'.**

Rationale for the rating

The rating reaffirmation takes into account the comfortable business risk profile marked by operating income of Rs.776.72 Cr in FY203 and operating margins at 5.31 per cent. The rating also factors in the healthy financial risk profile marked by low gearing (0.47 times as on March 31, 2023) and comfortable coverage indicators (ICR: 5.24 times and DSCR: 2.55 times as on March 31, 2023). The rating also derives strength from the semi-integrated nature of the group and the ongoing capex towards expansion of existing plants and setting up of new rolling mills will further strengthen the business risk profile of the group due to full integration right from iron ore fines to rolled products, along with 12 MW existing (additional 10 MW capex) captive power plant. Going forward, full integration will enable the group to save on its material cost and power cost to a great extent. The adequate liquidity position as reflected in the low utilization in the fund-based bank limits at ~53 per cent and sufficient cushion in the net cash accruals, further supports the rating. These strengths are however constrained by the working capital intensive nature of operations of the group marked by high GCA days of 170 days in FY2023 and inherent cyclicality in the steel business and the intense competition in the industry, which makes margins and cash flows vulnerable to fluctuations in prices and demand.

About Company

Established in 2003, BSFAPL is engaged in the manufacturing sponge iron & billets with its plant located in Rourkela, Odisha. It was initially promoted by the Maliram Shiva Kumar Group, a Nepalese conglomerate. In October 2010, the company was acquired by the promoters of SRMB Srijan Pvt Ltd as a part of backward integration initiative for the TMT bar business. After running the company for about 10 years, SRMB Srijan Pvt Ltd decided to focus on branding and selling TMT and sold the business in September 2021, to Sethia & Agarwal Family of Odisha. BSFAPL has an existing manufacturing capacity of 1,08,000 MTPA for Sponge Iron and 89,100 MTPA for Billets and also has a 12 MW captive power plant. The company is currently undergoing a capex for capacity expansion and forward integration initiative by installing additional 108000 MTPA of Sponge Iron Unit, 79200 MTPA of Billet Unit, 162000 MTPA of Rolling Mill & 10 MW of Captive Power Plant.

About the Group

K A I International Private Limited (KAI IPL)

Incorporated in 2007, KAIIPL is engaged in the trading of iron ore fines, coal, steel products such as sponge iron and billets. The current directors of the company are Mr. Suresh Agarwal, Mr. Yashraj Sethia and Natwar Kumar Agarwal.

Unsupported Rating
None

Analytical Approach

Extent of Consolidation
• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support
ACUITE has considered the consolidated financials of Bhaskar Steel and Ferro Alloys Private Limited (BSFAPL) and KAI International Private Limited (KAIIPL). The consolidation is on account of the common management, same line of operations, significant operational and financial fungibility and corporate guarnatee of KAIIPL in BSFAPL.

Key Rating Drivers

Strengths
Long track record of operations and experienced promoters
The group has long operational track record in the iron and steel industry for around one and a half decade. Further, the Promoters have more than two decades of experience in the field of trading of iron ore and coal products and more than a decade of experience in manufacturing of steel and steel related products. Acuité believes that the long operational track record of the group coupled with the long experience of the management might continue to benefit the group going forward, resulting in steady growth in the scale of operations.

Healthy business risk profile
Though, the operating income of the group moderated in FY23, it stood healthy at Rs.776.72 Cr as compared to Rs.829.39 Cr in FY2022. The moderation in revenue is on the account of lower realisations from iron ore fines and lower volume traded of coal in KAIIPL due to high amount of intercompany transaction during the year. However, the average realizations and sales volume of both sponge iron and billet increased in FY23 in BSFAPL. BSFAPL acquires raw materials like iron ore fines, coal, etc for the production of sponge iron and billets from KAIIPL. Semi-integrated nature of operations provides the group with a flexibility to use them for captive consumption. Furthermore, the group has achieved Rs.535.20 Cr (after adjusting inter-company transactions) in H1FY24.
Moreover, the group has recently undertaken the capex for expansion and forward integration of its unit. The capex for expansion of existing sponge iron, billets and captive power plant is on the verge of completion and the production is expected to commence from January'24, whereas the capex towards rolling mills will commence operations in October'24. With the commencement of new capex in Q4 FY24, the scale of operations is expected to increase in the near to medium term.
Acuite believes that with the commencement of additional capacities of sponge iron, billet and captive power plant in Q4 FY24 and establishment of new rolling mill in Oct'24, the overall revenue is likely to improve, along with rise in volume in the near to medium term.
The operating margin of the group improved to 5.31 per cent in FY2023 as against 3.57 per cent in FY2022 due to reduction in material cost. The backward integration for the sponge iron and billets with the raw materials like iron ore fines, coal, etc being procured from KAIIPL. The PAT margin also improved to 2.68 per cent in FY2023 as against 1.73 times in FY2022.
Acuite believes that with the planned capex towards expansion of existing DRI, SMS plant, captive power plant and forward integration of its unit, is likely to improve the profitability of the group going forward.

Healthy financial risk profile
The group's financial risk profile is healthy marked by healthy net worth base, low gearing and strong debt protection metrics. The tangible net worth of the group increased to Rs.215.37 Cr as on March 31, 2023 from Rs.143.97 Cr as on March 31, 2022, due to accretion of profits to

reserves. Acuite has considered an unsecured loan of Rs.26.62 Cr as Quasi Equity as the management has undertaken to maintain this amount in the business over the medium term. Gearing stood low at 0.47 times as on March 31, 2023 and is expected to increase in the near term, but would still remain comfortable as the company has recently got a sanction of Rs.120.00 Cr term loan in the current fiscal for the expansion of existing DRI by 108000MTPA, expansion of captive power plant by 10 MW, expansion of SMS unit by 79200 MTPA and setting up of Rolling Mill with capacity of 162000 MTPA. The total cost of project is Rs.174.88 Cr which is to be funded partly through Rs.120.00 Cr term loan from Sate Bank of India (Rs.100 Cr) and HDFC Bank Limited (Rs.20 Cr), Rs.12.00 Cr through unsecured loan from promoters and related parties, Rs.30.00 Cr through Equity infusion and remaining Rs.12.88 Cr through internal accruals. The financial closure has been achieved. In this project, up to 30th November 2023, the company has incurred a cost of Rs.125.92 Cr which has been funded by term loan of Rs.75.00 Cr, unsecured loan of Rs.12.00 Cr and remaining Rs.38.92 Cr through equity infusion. The promoters are resourceful and will infuse any incremental funding requirement if the situation arises. The capex for Sponge Iron, Billet and Captive power plant is Rs 130 crore and Rs 45 crore is for the rolling mill. The sponge, billet and power plant will commence operation in January'24 whereas the rolling mill will commence operations in October'24. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.75 times as on March 31, 2023 as against 1.80 times as on March 31, 2022. Moreover, the strong debt protection metrics is marked by Interest Coverage Ratio of 5.24 times as on March 31, 2023 as against 5.27 times as on March 31, 2022; and Debt Service Coverage Ratio at 2.55 times as on March 31, 2023 as against 3.89 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.26 times as on March 31, 2023 as against 0.23 times as on March 31, 2022.

Acuité believes that going forward the financial risk profile of the group is likely to be sustained despite debt funded capex plan backed by steady accruals.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations of the group is marked by high GCA days of 170 days in FY2023 as against 113 days in FY2022 due to high amount of "Other Current Assets" (advances to suppliers). K A I International Limited (KAIIPL) has paid significant advances to suppliers amounting to Rs. 140.47 Cr in FY2023 to ensure regular availability the goods. To fulfil the large number of orders during the end of FY23, KIL has paid advances to its suppliers. As a result, the sales during H1 FY 24 have increased significantly and stood at ~ Rs 436 Cr as compared to only ~ Rs 184 Cr during H1 FY 2023. Therefore, the above factor led to an elevated GCA days in FY2023. However, the debtor collection period stood comfortable at 10 days in FY2023 as against 18 days in FY2022. Though, the inventory period has increased to 62 days in FY2023 as compared to 56 days in FY2022, it still stood at comfortable levels. The group maintains stock of raw materials of ~2 months to mitigate any fluctuations in the raw material prices. Acuite believes that the working capital management of the group is likely to remain almost at the same level as evident from the moderate levels of inventory and comfortable debtor collection mechanism.

Inherent cyclical nature of the steel industry

The group's performance remains vulnerable to cyclicality 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 cyclicality. Further, operating margins are vulnerable to volatility in the input prices (sponge iron, iron ore and coal) as well as realisation from finished goods. The prices and supply of the main raw material, sponge iron, 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 group will remain a key monitorable.

Rating Sensitivities

- Improvement in scale of operations and profitability margins.
- Further elongation of working capital cycle.

Liquidity Position
Adequate
The group has an adequate liquidity position marked by Net Cash Accruals of Rs.26.43 Cr as on March 31, 2023 as against long term debt repayments of Rs.5.54 Cr over the same period. Further, the group is expected to generate sufficient net cash accruals to repay its debt obligation. Moreover, the fund-based bank limit remained moderately utilised at 53.01 per cent for las six months ended September 2023. The cash and bank balance of the group stood at Rs.21.65 Cr as on March 31, 2023. The current ratio stood moderate at 1.44 times as on March 31, 2023. However, the working capital-intensive management of the group is marked by Gross Current Assets (GCA) of 170 days as on March 31, 2023 as compared to 113 days as on March 31, 2023. Acuité believes that the liquidity position of the group is likely to remain adequate backed by the steady accruals.

Outlook:
Acuité believes that the outlook on the group will be 'Stable' over the medium term on account of the long track record of operations, 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 group's revenues or profit margins, or in case of deterioration in the group's financial risk profile and liquidity position or further elongation in its working capital cycle.

Other Factors affecting Rating
None.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	776.72	807.68
PAT	Rs. Cr.	20.79	14.36
PAT Margin	(%)	2.68	1.78
Total Debt/Tangible Net Worth	Times	0.47	0.57
PBDIT/Interest	Times	5.24	5.27

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

Not applicable

Any Other Information

None.

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
• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité 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
27 Dec 2023	Cash Credit	Long Term	15.00	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
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	30.00	ACUITE BBB | Stable | Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	15.00	ACUITE BBB | Stable | Reaffirmed

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

Name of the Group Company - K A I International Private Limited

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022–49294017 mohit.jain@acuite.in Sakshi Seksaria Analyst-Rating Operations Tel: 022-49294065 sakshi.seksaria@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.

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