

March 05, 2021

Bhuwalka Castings & Forging Private Limited: Ratings Reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based - Cash Credit	8.00	8.00	[ICRA]BBB- (Stable); reaffirmed
Total	8.00	8.00	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of the Group companies – Bhuwalka & Sons Private Limited (BSPL), Deccan Alloys Private Limited (DAPL), Meenakshi Bright Steel Bars Private Limited (MBSBPL), Vishwakarma Refractories Private Limited (VRPL) and Bhuwalka Castings & Forging Private Limited (BCFPL), referred to as the Group – as these entities operate in a similar line of business, have operational and financial linkages and share a common management.

The ratings reaffirmation takes comfort from the Group's established track record and brand presence, especially in South Indian markets, along with the extensive experience of the promoters in TMT manufacturing and trading business. The ratings favourably note the Group's diversified and established clientele across sectors such as real estate, construction and engineering, together with its long relationship with customers and suppliers. The ratings factor in its sustained performance, over the years, which is likely to continue in the near to medium term. While the Group's operations were impacted in Q4 FY2020 and H1 FY2021 by the pandemic, it has been able to ramp up its sales in H2 FY2021 and is expected to continue to do so going forward. Even as the consolidated turnover witnessed a decline of 10% in FY2020, it was able to sustain its profitability. The ratings also continue to favourably factor in the comfortable capital structure owing to moderate debt levels and healthy net worth.

The ratings are, however, constrained by the Group's thin margins due to limited value addition in its steel processing and trading activities as well as modest coverage indicators, primarily led by high interest outgo. The ratings remain constrained by the cyclicity inherent in the steel business and the intense competition in the industry, which exposes its margins and cash flows to fluctuations in prices and demand.

The Stable outlook reflects ICRA's expectation that the Group will continue to leverage its brand strength and client base.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and management in steel industry and established position of Bhuwalka Premier Group of companies – The Group's operations are overseen by its directors Mr. Sajan Kumar Bhuwalka, Mr. Sushil Kumar Bhuwalka, Mr. Kamal Kumar Bhuwalka and Mr. Kishan Kumar Bhuwalka, who have been involved in the steel industry for over three decades. The Group benefits from the established brand name in southern states of India.

Established relationship with diversified customer base and reputed suppliers – Given the extensive experience of the promoters in the industry, the Group has been able to develop established relationship with a wide network of suppliers and customers. It has a diversified and reputed clientele across sectors such as real estate, construction and engineering.

Moderate operating margin growth in FY2020 despite a decrease in sales volumes – Despite a reduction in its revenues, the operating margins improved to 4.04% in FY2020 from 3.16% in FY2019. The Group derived ~90% of the revenues from the

manufacturing division and the balance 10% from the trading segment, which resulted in the increase in margins. Additionally, the Group is expecting an increase in steel prices and increase in the sales volume primarily from the manufacturing division with improved demand from customers.

Comfortable capital structure – The Group's debt level increased in FY2020 primarily due to high utilisation of working capital. However, given the healthy net worth levels, its capital structure remained comfortable with gearing of 0.8 times as on March 31, 2020 from 0.9 times as on March 31, 2019. In the current year, its long-term debt levels have reduced, with moderate working capital utilisation levels at present. The Group's ability to sustain working capital cycle will be crucial in determining its debt levels.

Credit challenges

Modest coverage indicators due to thin profitability and increase in debt levels – The Group's profitability, at operating and net levels, remained modest due to limited value addition amid stiff competition in the business. Moderate operating profits and high interest outgo led to modest coverage indicators with Total Debt/OPBDITA of 5.35 times and interest coverage of 1.68 times in FY2020. The profitability is expected to improve with closure of DAPL's loss making operations in December 2019.

Intense competition in a fragmented and commoditised market – The Group's operations are concentrated towards manufacturing trading of steel products such as TMT bars, channels and rounds, and other products like refractory bricks and castings. Since the market is highly fragmented and commoditised, it faces price-based competition that keeps the operating profitability under check.

Exposure to cyclical associated with steel industry and Covid-19 impact – The domestic steel industry is cyclical in nature and is likely to result in volatility in the cash flows of the steel players. The Group's revenue and profitability remain vulnerable to volatility in prices of key raw materials and TMT bars, due to cyclical associated with the industry. Further, its operations are vulnerable to any adverse change in demand-supply dynamics in the construction sector, especially in southern states of India. The Group's consolidated operating income (OI) witnessed a reduction of ~10% to Rs. 509.36 crore in FY2020 from Rs. 566.47 crore in FY2019. The revenue de-growth was attributable to the slowdown in demand from the real estate sector as well as lockdown in March 2020. After close down of operations from end of March 2020 and over H1 FY2020 (till Sep 2020), the Group recorded sales worth Rs. 185.22 crore.

Liquidity position: Adequate

The Group's cash flow from operations improved in FY2020 owing to higher advance received from its customers. The consolidated working capital utilisation stood moderately high at 86% leaving some buffer for liquidity. The Group does not have any major long-term repayments and did not avail Covid-19 related moratorium or emergency loans.

Rating sensitivities

Positive factors – ICRA could upgrade Bhuwalka's rating if its scale of operations improves, while improving its profitability and coverage indicators. Specific credit metrics that could lead to an upgrade of rating include interest coverage of at least 3 times, on a consistent basis, as well as TD/OPBITDA less than 3 times on a sustained basis.

Negative factors – Negative pressure on the company's rating could arise if there is decline in the revenues or profitability, leading to weakened coverage indicators. Any stretch in the working capital cycle resulting in tight liquidity may also lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Ferrous Metals Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various group companies as listed in Annexure-2

About the Company

Bhuwalka Castings & Forging Private Limited (BCFPL) is part of the Bhuwalka Premier Group of Companies and is involved in manufacturing cast and forged iron products, in addition to trading in TMT bars. Its manufacturing facility in Tamaka Industrial Area, Kolar has a licensed capacity of 12,000 TPA of Steel Casting & M.S. Ingots. While BCFPL was previously involved in ingot production which in turn was used by group companies for rolled products, it has been exclusively focusing on industrial castings, rolled products and machined products since December 2009. It has capability to manufacture various grades of Grey iron and S.G. iron castings. It presently caters to domestic demand, catering to players in the machine tool, air compressors and refrigeration, diesel engines, valve and vacuum pump Industries, and related segments.

Key financial indicators - Consolidated (audited)

Consolidated	FY2018	FY2019	FY2020
Operating Income (Rs. crore)	495.56	566.47	509.36
PAT (Rs. crore)	4.07	5.68	3.12
OPBDIT/OI (%)	3.98%	3.16%	4.04%
RoCE (%)	8.83%	7.26%	7.62%
Total Outside Liabilities/Tangible Net Worth (times)	1.47	1.70	1.59
Total Debt/OPBDIT (times)	3.84	6.40	5.35
Interest Coverage (times)	1.88	2.29	1.68
DSCR (times)	1.77	1.85	1.45

*Source Group data

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					05-Mar-2021	26-Dec-2019	03-Aug-2018	26-Apr-2017
1	Cash Credit	Long-term	8.00	7.18	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	8.00	[ICRA]BBB- (Stable)

Source: Bhuwalka Castings & Forging Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Bhuwalka & Sons Private Limited	-	Full consolidation
Deccan Alloys Private Limited	-	Full consolidation
Meenakshi Bright Steel Bars Private Limited	-	Full consolidation
Vishwakarma Refractories Private Limited	-	Full consolidation
Bhuwalka Castings & Forging Private Limited	-	Full consolidation

Source: The Group

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