March 28, 2024

Bansal Alloys & Metals 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 facilities	45.00	45.00	[ICRA]BBB+(Stable); reaffirmed
Short term Non-fund Based limits	14.20	14.20	[ICRA]A2; reaffirmed
Term Loans	8.73	8.73	[ICRA]BBB+(Stable); reaffirmed
Unallocated limits	0.27	0.27	[ICRA]BBB+(Stable)/ [ICRA]A2; reaffirmed
Total	**68.20**	**68.20**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Bansal Alloys & Metals Private Limited (BAMPL) and its Group companies, Bansal Iron & Steel Rolling Mills (BISRM) and Bansal Ispat Udyog (BIU), together referred to as the Bansal group, given the common management and similar lines of business.

The ratings reaffirmation continues to consider the long track record of the promoters in manufacturing structural steel products and the Bansal Group's presence in one of the largest steel markets in India, Mandi Gobindgarh (Punjab). The location provides a ready market for raw material availability as well as facilitating the sale of finished goods. In FY2023, the Group reported an increase in consolidated revenue by ~47%, owing to higher volume from enhanced capacities. However, the operating margins moderated to ~2% compared to 3.5% reported in FY2022. In FY2024, with similar volumes compared to FY2023 and a decline in steel prices, the overall revenue is expected to moderate to an extent. However, the overall net profits and cash accruals are expected to remain comfortable relative to debt-servicing obligations. Also, the liquidity position remains adequate with sufficient headroom in the working capital sanctioned limits.

The ratings are constrained by the Group's thin operating margins due to the low value-added nature of its products. The margins have moderated in FY2023 and FY2024, compared to average margins reported in earlier years. ICRA also considers the intense competition in the fragmented and commoditised structural steel market, limiting the pricing flexibility and impacting margins. The ratings are constrained by the Group's exposure to cyclicality inherent in the steel industry. Given the dependence on raw material imports, the Group's exposure to forex risks further affected the ratings. However, the Group has a policy for forex hedging to protect its margins.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group's credit metrics would continue to remain at comfortable levels going forward, aided by steady accruals and moderate dependence on external debt.

Key rating drivers and their description

Credit strengths

Comfortable financial risk profile – The Group's revenue increased significantly in FY2023, led by higher volumes from the enhanced capacity. Consequently, the Group reported an increase in consolidated revenue by ~47% to Rs. 2,335 crore compared to ~Rs. 1,590 crore reported in FY2022. However, the operating margin moderated to 2% in FY2023 compared to ~3.5% in FY2023. The Group had also booked one extraordinary loss of ~Rs. 27 crore in FY2023, on account of previous advances provided to purchase one land. The discussion is still ongoing, but as a prudent accounting practice, the company had written off the same from the audited financials.

In FY2024, with similar volumes compared to FY2023 and a decline in steel prices, the overall revenue is expected to moderate to an extent. Owing to the likelihood of similar margins in FY2024, the overall net profits and cash accruals are expected to remain comfortable relative to debt-servicing obligations. The debt protection metrics are also expected to remain comfortable in FY2024.

Significant experience of management and established operational track record in steel sector – The Bansal Group has been involved in the manufacturing of various structural steel products since 1971 through BISRM, followed by BAMPL in 1990 and BIU in 2011. Given the extensive experience of the promoters in the industry and the established operational track record, the Group has been able to maintain good relations with the stakeholders across the value chain. It has also enhanced its capacities, resulting in higher volumes and revenues in FY2023 and FY2024.

Location-specific advantage- The Bansal Group's production facilities are in one of the largest steel markets in India, Mandi Gobindgarh, Punjab. The location provides a ready market for raw materials as well as finished goods, thus reducing the Group's overall freight costs.

Credit challenges

Thin operating margins due to low value-added nature of products – The Group's operating margin remains thin due to the low value-added nature of products, keeping its coverage indicators under check. While the operating margin remains stable at ~4%, it witnessed moderation in FY2023 and FY2024 owing to a decline in steel prices.

Stiff competition from highly fragmented and commoditised steel market– The steel manufacturing business is characterised by intense competition across the value chain due to low product differentiation, and consequent high fragmentation and low entry barriers. This limits the pricing flexibility of the players operating in the market, including the Bansal Group.

Susceptibility of margins to foreign exchange rate fluctuation risks – BAMPL's operations are raw material-intensive in nature, with raw material consumption and consumables accounting for over 70% of its operating income (OI) over the last few years. The ratings are constrained by its exposure to forex risks, given the significant amount (value-wise) of raw material (iron and steel scrap) imported every year. Although the procurement of imported scrap has reduced significantly in the recent past, a considerable portion is still imported. Given the thin profitability, any adverse forex fluctuation can affect its margins. However, the Group engages in forex hedging to protect its margins.

Exposure to cyclicality inherent in steel industry – The domestic steel industry is cyclical in nature, which may impact the cash flows of steel players, including the Bansal Group.

Liquidity position: Adequate

The Group's liquidity position is adequate. It has annual debt repayments of ~Rs. 3-4 crore per annum and capex plan of ~Rs. 15 crore in FY2025, which can be comfortably met through the Group's expected cash generation, along with minimal debt. The sufficient headroom in the working capital-sanctioned limits also supports the liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade the long-term rating if the Group demonstrates a healthy and sustained increase in its scale and profitability. Specific credit metrics that could lead to a rating upgrade include interest coverage over 4 times on a sustained basis.

Negative factors – A significant decline in the OI or operating profitability, or a deterioration in the liquidity position owing to a stretch in the working capital cycle could exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Iron & Steel
Parent/Group support	None
Consolidation/Standalone	The ratings are based on the consolidated financial profiles of BAMPL and its Group companies – BISRM and BIU

About the company

BAMPL manufactures mild/alloy steel billets and rolled steel products, including HR coils. The company has been promoted by Mr. Prem Bansal, who along with his sons, looks after its operations. BAMPL's shares are entirely held by the promoters and their family members. The company's manufacturing facility is in Mandi Gobindgarh, Punjab, with an installed capacity of 2,28,000 metric tonnes per annum (MTPA).

BISRM is a partnership firm involved in rolling steel ingots/billets into girders and channels. These are primarily used for structural and construction purposes. The firm was promoted in 1971 and its manufacturing facility is in Mandi Gobindgarh, with an installed annual capacity of 39,000 MTPA.

BIU is a partnership firm, which manufactures TMT bars, girders, channels and angles. The unit has a tie-up with Kamdhenu Ispat and uses its brand name for the sale of products on payment of royalty fees. These are primarily used for structural and construction purposes. The firm was promoted in 2009 and commenced commercial operations in April 2011. Its manufacturing facility is in Mandi Gobindgarh, with an installed annual capacity of 2,80,000 MTPA.

Key financial indicators (audited)

Bansal Group Consolidated*	FY2022	FY2023
Operating income	1590.0	2334.8
PAT	41.5	-12.5
OPBDIT/OI	3.5%	2.0%
PAT/OI	2.6%	-0.5%
Total outside liabilities/Tangible net worth (times)	1.2	1.6
Total debt/OPBDIT (times)	2.3	2.9
Interest coverage (times)	5.4	3.2

*PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Consolidation of BAMPL, BISRM and BIU done by ICRA based on elimination of inter-group transactions based on public disclosures*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 28, 2024	Dec 30, 2022	Sep 02, 2021	-
1	Fund based facilities	Long term	45.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	Non-fund Based limits	Short term	14.20	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	-
3	Term Loans	Long term	8.73	7.55	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
4	Unallocated	Long Term/ Short term	0.27	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund-based facilities	Simple
Short term Non-fund Based limits	Very simple
Term Loans	Simple
Unallocated Limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term fund based facilities**	-	-	-	45.00	[ICRA]BBB+(Stable)
NA	**Short term Non-fund Based limits**	-	-	-	14.20	[ICRA]A2
NA	**Term Loans**	FY2020	-	FY2027	8.73	[ICRA]BBB+(Stable)
NA	**Unallocated**	-	-	-	0.27	[ICRA]BBB+(Stable)/ [ICRA]A2

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Bansal Iron and Steel Rolling Mills	NA	100%
Bansal Ispat Udyog	NA	100%

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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