

May 19, 2022

Shri Bajrang Power And Ispat Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based TL	434.59	434.59	[ICRA]A-(Stable); reaffirmed
Long-term Fund-based CC	325.00	325.00	[ICRA]A-(Stable); reaffirmed
Short-term Non-fund Based	270.00	270.00	[ICRA]A2+; reaffirmed
Total	1029.59	1029.59	

*Instrument details are provided in Annexure-1.

Rationale

While arriving at the ratings, ICRA has considered the consolidated financials of Shri Bajrang Power And Ispat Limited (SBPIL/Group). The assigned ratings continue to consider SBPIL's integrated nature of operations with key raw material linkages in the form of a captive iron ore mine and a fuel supply agreement (FSA) for its coal requirements used in sponge iron/pellet production, and downstream facilities in the form of an induction furnace, rolling mill, wire drawing mill and tubular section mill. The ratings also derive comfort from the healthy capacity utilisation levels reported by SBPIL's facilities, supported by strong demand for its products, its established brand, Goel TMT, in the longs segment in Central India and extensive experience of its promoters in the steel industry. The company also benefits from the location-specific advantages due to its proximity to coal and iron ore mines, which results in freight cost savings. Favourable steel prices and recent capacity expansion of sponge iron, billets and blooms, re-rolled products and captive power may help SBPIL report a strong financial performance in FY2023, which would further support its profitability and improve its debt protection metrics.

The ratings, however, are constrained by SBPIL's sizeable debt along with significant financial support provided to its subsidiary, IA Hydro Energy Private Limited (IA Hydro) due to its weak past performance. However, ICRA believes that after the stabilisation of IA Hydro's operational and financial performances in the last two years, the quantum of further support from SBPIL is likely to be minimal, going forward. Besides, SBPIL is exposed to execution risks as the solar power project under its subsidiary is yet to be commissioned. In case of any significant time/cost overruns, the company may have to provide financial support. While no further major capex is planned in the near term, reliance on fresh external debt to fund any large capex requirement in the future will remain a key rating sensitivity. The ratings also consider SBPIL's exposure to price risks, given the cyclicity inherent in the steel and the end-user industries and regulatory risks associated with iron ore mining and power generation.

The Stable outlook on the [ICRA]A- rating reflects ICRA's expectation that SBPIL would continue to register a steady revenue growth along with healthy profitability, supported by healthy domestic demand and favourable steel realisations in the near-to-medium term.

Key rating drivers and their description

Credit strengths

Improved scale and profitability; recent capacity expansion and switch to cheaper power would further support profitability – SBPIL reported a healthy improvement in its scale and profitability in 9M FY2022, backed by an improvement in steel realisations amid a pick-up in domestic steel demand. SBPIL's strong performance is expected to have continued in the full year FY2022 as well as in FY2023. A significant increase in profitability in FY2022 can be attributed to elevated steel prices and strong demand in the domestic market. Going forward, even if steel prices moderate from the current levels, the recent

capacity expansions from internal accruals would further strengthen SBPIL's integrated operations and would support its profitability in the near term. Further, the company has tied up for purchase of entire power from the proposed 50 MW solar power plant being commissioned under SBPIL's subsidiary at a competitive tariff. As per ICRA's estimates, switching to power supply at lower tariff would further improve SBPIL's profitability, going forward.

Integrated nature of operations, presence of captive iron ore mine and power plant support cost structure – SBPIL is an integrated steel player with a captive iron ore mine and manufactures intermediate and long steel products such as thermo mechanically treated (TMT) bars, electric resistance welded (ERW) pipes, wire rods, hard bright (HB) wires including binding wires, ferro alloys, steel billets, iron pellets and sponge iron based out of Raipur. With the commissioning of the solar power project, captive power capacity of the Group would increase to 138 megawatt (MW), which helps in reducing power and fuel costs. The integrated nature of operation augurs well for SBPIL's cost structure and would support the operating margins, going forward. Besides, the manufacturing facility is in proximity to the sources of key raw materials viz. iron ore and coal, which reduce its freight costs.

Extensive experience of the Group in steel business along with established brand and market position – The company is promoted by the Raipur-based Goel family, which has three decades of experience in steel-making business. Its rolled product brand, Goel TMT, has an established market presence and acceptability among large institutional clients in Central India. In 11M FY2022, Madhya Pradesh and Chhattisgarh accounted for 56% of SBPIL's total sales. However, the company has diversified its geographical base with increased exports sales in FY2022. The company has 11 distributors, which sells 'Goel TMT' brand on an exclusive basis. These distributors have 514 dealers spread across 22 states in India.

Credit Challenges

Sizeable debt along with large unsecured loans to IA Hydro – At the consolidated level, SBPIL's debt levels remain high on account of large debt-funded capex in the past and regular working capital requirements. IA Hydro draws significant support from its parent (SBPIL) in the form of large interest-free unsecured loans with flexible repayment terms. Going forward, as per ICRA's estimates, the internal accruals of IA Hydro would be able to largely cover its debt service obligations and the extent of reliance on SBPIL for further financial support would reduce to that extent.

Exposure to cyclicity in the steel sector and end-user industry – SBPIL operates in a cyclical industry, which is vulnerable to any adverse change in the demand-supply dynamics in the steel sector and the end-user industry. Nevertheless, the company's cost competitiveness coupled with a high level of integration in the steel manufacturing operations provide comfort.

Exposure to regulatory risks associated with iron ore mining and power generation – SBPIL remains exposed to regulatory risks in the mining segment. The mining rights are subject to compliance with certain terms and conditions of the mining lease agreements. Any change in the Government policy or adverse rulings by adjudicating bodies could impact the operations. Further, the company's operations remain exposed to regulatory risks pertaining to scheduling and forecasting requirements applicable for renewable energy projects, given the intermittent nature of generation and limited experience of developers in forecasting in Indian conditions.

Liquidity Position – Adequate

SBPIL's liquidity position remains adequate, as reflected by undrawn bank limits of ~Rs. 137 crore as on March 31, 2022 and moderate utilisation of its bank limits during the past 12 months. Further, SBPIL's internal accruals (on a consolidated basis) are expected to remain healthy to meet its debt repayment obligation of around Rs. 67 crore and Rs. 73 crore in FY2023 and FY2024, respectively. Further, the company does not have any significant capex plans in the near term.

Rating sensitivities

Positive factor – ICRA may upgrade the ratings if the Group's consolidated revenue and profitability register a steady growth along with a healthy improvement in capital structure and debt coverage metrics while maintaining a total debt to operating profit ratio of below 2 times on a sustained basis.

Negative factor – The ratings may be downgraded if a sharp correction in steel prices and a prolonged lull in demand conditions significantly affect the Group's revenues and cash accruals. Specific credit metric that would put pressure on the ratings would be DSCR remaining below 1.8 times on a sustained basis. Further, any large unanticipated debt-funded capex affecting the liquidity position will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers Rating Approach – Consolidation Entities in the Ferrous Metals Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of Shri Bajrang Power And Ispat Limited. The details of consolidation are there in Annexure 2

About the company

Set up in 2002 by the Raipur-based Goel family, SBPIL has an integrated steel plant with a captive power plant located at Urla Industrial Complex, Raipur, Chhattisgarh. The company is promoted by Mr. Suresh Goel, Mr. Rajendra Goel, Mr. Narendra Goel and Mr. Anand Goel. The promoters have more than three decades of experience in the steel industry. The company has three units located at Borjhara, Gondawara and Tilda (all are located in Urla Industrial Complex).

The company has various divisions including sponge iron, billet, thermo-mechanically treated bar (TMT), waste heat recovery boiler (WHRB) for power generation, hard bright (HB) wire, iron ore beneficiation, pellet and captive power plant (coal and biomass based), and tubular section mill for ERW pipes. The company utilises captive iron mine with an approval to mine 1.2 MTPA and manganese ore mines to manufacture intermediate and long steel products such as TMT bars, ERW pipes, wire rods, HB wires including binding wires, ferro alloys, steel billets, iron pellets and sponge iron.

Key financial indicators (Audited)

SBPIL	Standalone		Consolidated	
	FY2020	FY2021	FY2020	FY2021
Operating Income (Rs. crore)	2583.8	2962.8	2663.6	3043.5
PAT (Rs. crore)	148.5	302.6	145.9	311.8
OPBDIT/OI (%)	13.1%	18.9%	14.3%	19.9%
PAT/OI (%)	5.7%	10.2%	5.5%	10.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.0	1.8	1.4
Total Debt/OPBDIT (times)	2.4	1.5	3.2	2.1
Interest Coverage (times)	3.0	6.1	2.7	5.1

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Instrument	Type	Current Rating (FY2023)			Chronology of Rating History for the past 3 years		
			Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating in	Date & Rating in		
						FY2022	FY2021	FY2020
					May 19, 2022	Sep 30, 2021	-	-
1	Term Loans	Long-term	434.59	371.31*	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-
2	Cash Credit	Long-term	325.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-
3	Letter of Credit	Short-term	225.00	-	[ICRA]A2+	[ICRA]A2+	-	-
4	Bank Guarantee	Short-term	35.00	-	[ICRA]A2+	[ICRA]A2+	-	-
5	Credit Exposure Limit	Short-term	10.00	-	[ICRA]A2+	[ICRA]A2+	-	-

Source – Company; *As on Mar 31, 2022

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based TL	Simple
Long-term Fund-based CC	Simple
Short-term Non-Fund based	Very Simple

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 analyzing 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, is available on ICRA's website: www.icra.in

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	Term Loans	Feb 2021	NA	FY2031	199.74	[ICRA]A- (Stable)
NA	Term Loans	Nov 2020	NA	FY2031	128.91	[ICRA]A- (Stable)
NA	Term Loans	Feb 2020	NA	FY2031	40.77	[ICRA]A- (Stable)
NA	Term Loans	Feb 2020	NA	FY2028	28.22	[ICRA]A- (Stable)
NA	Term Loans	Mar 2021	NA	FY2027	36.95	[ICRA]A- (Stable)
NA	Cash Credit	NA	NA	NA	120.00	[ICRA]A- (Stable)
NA	Cash Credit	NA	NA	NA	112.00	[ICRA]A- (Stable)
NA	Cash Credit	NA	NA	NA	33.00	[ICRA]A- (Stable)
NA	Cash Credit	NA	NA	NA	50.00	[ICRA]A- (Stable)
NA	Cash Credit	NA	NA	NA	10.00	[ICRA]A- (Stable)
NA	Letter of Credit	NA	NA	NA	60.00	[ICRA]A2+
NA	Letter of Credit	NA	NA	NA	150.00	[ICRA]A2+
NA	Letter of Credit	NA	NA	NA	15.00	[ICRA]A2+
NA	Bank Guarantee	NA	NA	NA	5.00	[ICRA]A2+
NA	Bank Guarantee	NA	NA	NA	5.00	[ICRA]A2+
NA	Bank Guarantee	NA	NA	NA	25.00	[ICRA]A2+
NA	Credit Exposure Limit	NA	NA	NA	10.00	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	Status	Ownership	Consolidation Approach
Shri Bajrang Energy Private Limited	Subsidiary	79.83%	Full Consolidation
S B Power	Partnership firm	51%	Full Consolidation
IA Hydro Energy Private Limited	Subsidiary	90.46%	Full Consolidation
Shri Bajrang Steel Corporate Limited	Subsidiary	100%	Full Consolidation
Chhattisgarh Captive Coal Mining Pvt. Ltd.	Joint Venture	19%	Joint Venture

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