

June 16, 2022

B.Melaram & Sons: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term non-fund based limit	40.0	40.0	[ICRA]A4; Reaffirmed
Long-term fund-based limit^	(7.0)	(7.0)	[ICRA]B(Stable); Reaffirmed
Total	40.0	40.0	

*Instrument details are provided in Annexure-1

^Sub-limit of Letter of Credit

Rationale

The rating action factors in the extensive experience of more than two decades of B. Melaram & Sons' (BMS) promoters in steel trading and ship-breaking businesses. ICRA notes the firm's plan to re-venture into the ship-breaking business, leveraging on the promoter group's well-established presence in this business through an associate firm. However, the same will be contingent on getting timely approval for allotment of a plot in the ship-breaking yard from the Gujarat Maritime Board (GMB), which has witnessed some delays.

The ratings, however, are constrained by BMS' average financial profile, marked by modest scale of operations, low internal accrual generation and weak debt protection metrics. The firm's profitability is susceptible to fluctuations in steel prices and the cyclicity inherent in the industry. The ratings also take into account the intense competition in steel trading owing to the fragmented nature of the business, which limits the pricing flexibility, and risks inherent in partnership firms related to capital withdrawals.

The Stable outlook on the rating reflects ICRA's opinion that BMS will continue to benefit from its established operational track record and steady demand for steel products.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in steel trading and ship-breaking business – BMS was established by Mr. Melaram Baijnath Agarwal in 1982 and was later taken over by his sons, Mr. Vinodkumar M. Agarwal and Mr. Bhupendrakumar M. Agarwal. Both the partners hold over two decades of experience in steel trading and ship-breaking operations. The partners' extensive experience has enabled the firm to establish healthy business relationships with its suppliers and customers.

Credit challenges

Modest scale of operations, low internal accrual generation and weak debt protection metrics – The firm's scale of operations has remained modest with an operating income of Rs. 32.6 crore in FY2022 (Rs. 31.5 crore in FY2021), led by a decline in trading volumes. BMS' profitability has been weak owing to the lack of value addition in the trading business. Though the operating margins improved in FY2022 (as per the provisional financials), its profitability remains vulnerable to anticipated correction in steel prices over the near term. Moreover, volatility in margins and low internal accrual generation has continued to result in weak debt protection metrics with interest coverage of 1.8 times in FY2022.

Exposure to cyclicalities associated with steel industry – BMS' operations and profitability are vulnerable to the cyclicalities inherent in the steel trading business. The fluctuation in global as well as domestic demand and prices affected the firm's scale of operations and led to volatility in profit margins in the recent years.

Fragmented nature of industry resulting in intense competition – The steel trading industry in India is highly fragmented, given the commoditised nature of the product. The segment is characterised by low entry barriers and intense competition from numerous players that limits the pricing flexibility of the traders.

Risks inherent in partnership nature of business – BMS remains vulnerable to risks inherent in partnership firms such as the risks of capital withdrawal, which can adversely impact its capital structure.

Liquidity position: Stretched

The firm's liquidity profile has remained stretched due to weak cash accruals and relatively high working capital intensity in the business. While the liquidity is temporarily supported by the capital infusion from partners, the same will be deployed towards funding the allotment/development of a ship-breaking yard in Alang, Gujarat. However, the absence of any long-term loan repayments provides some comfort.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a sustained revenue growth, coupled with improvement in profitability leading to improved liquidity and comfortable coverage indicators.

Negative factors – The ratings could be downgraded if there is any sustained decline in profitability and turnover leading to deterioration of liquidity, or if there are any substantial withdrawals from the capital account.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Established in 1982, BMS is a partnership concern that trades in ferrous products such as hot rolled (HR) coils, HR plates and sheets, HR alloys, etc. The firm was also involved in ship-breaking business. However, the same was discontinued from FY2013. Bajinath Melaram¹ is the associate concern of BMS, which deals in ship-breaking operations.

Key financial indicators (audited)

BMS Standalone	FY2021	FY2022 [^]
Operating Income (Rs. crore)	31.5	32.6
PAT (Rs. crore)	0.9	1.5
OPBDIT/OI (%)	5.8%	8.8%
PAT/OI (%)	3.0%	4.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.4
Total Debt/OPBDIT (times)	1.0	2.2

¹rated [ICRA]BB+(Stable)/[ICRA]A4+

Interest Coverage (times)	1.6	1.8
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PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ^ Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jun 16, 2022			
1	Letter of Credit	Short-term	40.0	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
2	Cash Credit	Long-term	(7.0)	(2.6)	[ICRA]B (Stable)	[ICRA]B (Stable)	[ICRA]B (Stable)	[ICRA]B+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term non-fund based- Letter of Credit	Very simple
Long-term fund-based- Cash Credit	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 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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Letter of Credit	-	-	-	40.0	[ICRA]A4
NA	Cash Credit	-	-	-	(7.0)	[ICRA]B(Stable)

Source: Company

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

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

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Branches



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