

February 24, 2023

Captain Steel India Limited: Ratings reaffirmed, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit/ WCDL	180.00	230.00	[ICRA]A+ (Stable); Reaffirmed
Fund-based (Interchangeable)*	(20.00)	-	-
Non-fund based – Letter of Credit/ Bank Guarantee (Interchangeable)*	(10.00)	(20.00)	[ICRA]A1+; Reaffirmed
Non-fund based – Bank Guarantee	20.00	20.00	[ICRA]A1+; Reaffirmed
Unallocated limit	-	10.00	[ICRA]A+ (Stable)/ [ICRA]A1+; Reaffirmed
Total	200.00	260.00	

*Instrument details are provided in Annexure-I; *Sublimit of Cash Credit

Rationale

The ratings reaffirmation for Captain Steel India Limited (CSIL) primarily considers its established operational track record in the secondary steel industry, prominence of its brand (Captain TMT) for thermo-mechanically-treated (TMT) bars and a strong distribution network, particularly in the eastern India, positively impacting sales volumes as well as realisations. The company's scale of operation is likely to improve in the medium term as it plans to expand its capacities. The ratings also draw comfort from the company's robust financial profile with healthy cash accruals, a conservative capital structure and strong debt coverage metrics. A significant increase in input costs, including power and fuel expenses, is likely to result in a dip in CSIL's operating margin in the current fiscal. Nevertheless, its profits and cash accruals at an absolute level are likely to remain healthy. The company's planned capex of Rs. 150-200 crore for expansion of billet and rolling mill capacities is unlikely to have any material impact on its liquidity, given its sizeable free cash and liquid investments and buffer available in the working capital limit.

The ratings are, however, constrained by the limited backward integration in the company's current operations, restricting value addition. Besides, CSIL remains exposed to the cyclical nature inherent in the steel industry and a competitive nature of the secondary steel industry, which is likely to keep margins under check despite a significant premium over market prices fetched by the company's branded products.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that CSIL's established brand and increasing market penetration are likely to support its business positioning. The company's capital structure and liquidity are likely to remain favourable despite its planned debt-funded capital expenditure in the near-to-medium term.

Key rating drivers and their description

Credit strengths

Established operational track record in the secondary steel industry – CSIL commenced operations in 2007. At present, it has a billet manufacturing unit and a rolling mill unit having installed capacities of 2,07,360 tonnes per annum (tpa) and 2,49,360 tpa, respectively in Asansol, West Bengal. The billets manufactured are primarily consumed in-house for manufacturing TMT bars. CSIL also has an arrangement with JMD Alloys Limited (JMD), which manufactures TMT bars in its plant in Patna, Bihar for CSIL as per its product specifications. CSIL has provided an unsecured loan (Rs. 55.6 crore as on March 31, 2022) to JMD for modernisation and upgradation of its rolling mill unit, which has a TMT bar manufacturing capacity of 1,80,500 tpa. In addition,

in December 2020, CSIL commenced production of TMT bars in a new unit taken on lease. The plant is located at Barjora, West Bengal and has a TMT bar manufacturing capacity of 96,000 tpa. The company's adequate product quality and expansion of manufacturing base through third-party and leased facilities have strengthened its business profile. In addition to normal TMT bars, the company has also installed a facility to manufacture rust-free (epoxy coated) TMT bars, which are relatively value-added products. However, the sale of rust-free TMT bars is yet to pick up.

Strong brand position and distribution network, particularly in eastern India – CSIL sells TMT bars under the brand name, Captain TMT. Over the years, the company has taken various steps for developing the brand, including promotion through brand ambassador, Mr. Sourav Ganguly, which has helped in building a strong brand recall for the company. CSIL has also included a few other celebrities in the list of its brand ambassadors and is focussing on advertising at the national level. Such promotional activities have helped the company in strengthening its brand position, thereby commanding a premium over the market rates of TMT bars in the last few years. In addition, CSIL's strong distribution network, particularly in the eastern India, led to a significant increase in its sales volume over the years.

Robust financial profile with healthy cash accrual, conservative capital structure and strong debt coverage metrics – The company's net cash accrual remained healthy at Rs. 109.4 crore and Rs. 103.8 crore in FY2021 and FY2022. A significant turnover growth in FY2022, led by a sharp increase in realisation, supported CSIL's profits and cash accruals at an absolute level in FY2022, despite a moderation in margins. In the current fiscal, the company's profits are likely to decline by 25-30% due to a significant increase in power cost, prices of raw materials and coal which can't be fully passed on to customers despite an improvement in realisations. Nevertheless, CSIL's profits and cash accruals would still continue to remain healthy. CSIL's capital structure remained very conservative in the recent years, with nominal long-term loans and low utilisation of working capital limits. The company does not have any long-term loan at present, and the overall debt remained nil as on March 31, 2022 vis-à-vis a tangible net worth of Rs. 465 crore. The company's healthy profits at an absolute level and low debt led to strong debt coverage metrics, as reflected by an interest coverage of 18.9 times (26.3 times in FY2021) and a DSCR of 13.7 times (15.3 times in FY2021) in FY2022.

Credit challenges

Lack of backward vertical integration – CSIL's limited backward integration in operation restricts value addition and exposes it to fluctuations in raw material prices compared to the relatively more integrated players.

Competitive nature of the industry likely to keep margins under check, however, CSIL's established brand fetches significant premium over market prices – CSIL derives the major portion of its revenue from semi-urban and rural areas. The fragmented nature of the secondary steel industry and intense competition from other organised as well as unorganised players are likely to keep its margins under check. However, the company's products fetch a significant premium over market rates due to its established brand (Captain).

Exposed to cyclicity inherent in the steel industry; profitability to decline in the current fiscal due to rise in input costs – The steel industry is characterised by its inherent cyclicity. This is likely to keep the profitability and cash flows of all the players in the industry, including CSIL, volatile. A significant increase in input costs in the current fiscal is likely to result in a contraction in CSIL's operating margin by around 200 basis points.

Liquidity position: Strong

The company's liquidity position is likely to remain **strong**. Its cash flow from operations remained healthy at Rs. 78 crore in FY2022. The same is likely to decline in FY2023 due to lower profits but would still remain comfortable. CSIL does not have any long-term loans at present. The company's liquidity is supported by a significant undrawn working capital of around Rs. 166 crore with respect to the drawing power and sizeable free liquid investments of around Rs. 157 crore at the end of January

2023. Hence, CSIL's liquidity position is unlikely to be materially affected by the planned capex of Rs. 150-200 crore, in the near-to-medium term, which is likely to be funded partly by debt, and the balance through internal accruals.

Rating sensitivities

Positive factors – ICRA may upgrade the long-term rating if CSIL demonstrates a significant growth in the scale of operation and cash accruals on a sustained basis, without any significant weakening of its capital structure.

Negative factors – Pressure on the company's ratings may arise if weakening of the steel industry adversely impacts the company's revenues and cash accruals on a sustained basis and/or if any large capital expenditure or investments lead to a deterioration in CSIL's liquidity. Deterioration in the company's total debt/OPBDITA to more than 1.5 times on a sustained basis may also trigger ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Ferrous Metals
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the entity

About the company

Captain Steel India Limited (erstwhile BMA Stainless Limited) commenced its operations in 2007. At present, it has a billet manufacturing unit along with a rolling mill unit with installed capacities of 2,07,360 tonnes per annum (tpa) and 2,49,360 tpa, respectively in Asansol, West Bengal. The billets manufactured are primarily consumed in-house for manufacturing TMT bars. CSIL also has tie-up with a plant in Patna, Bihar, having an installed capacity of 1,80,500 tpa, which manufactures TMT bars as per CSIL's specifications. In addition, in December 2020, CSIL commenced production of TMT bars in a new unit taken on lease. The plant is located at Barjora, West Bengal and has a manufacturing capacity of 96,000 tpa. The company plans to increase the billet and TMT bar manufacturing capacities of its Asansol plant, but the statutory clearances for the same are awaited.

Key financial indicators (audited)

CSIL (Standalone)	FY2021	FY2022	9M FY2023*
Operating income	1451.2	1969.0	1543.4
PAT	104.5	100.1	54.6**
OPBDIT/OI	10.3%	6.8%	3.6%
PAT/OI	7.2%	5.1%	3.5%^
Total outside liabilities/Tangible net worth (times)	0.3	0.3	-
Total debt/OPBDIT (times)	0.0	0.0	-
Interest coverage (times)	26.3	18.9	8.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional; **Profit before tax (PBT); ^PBT/OI; Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Feb 24, 2023	Nov 05, 2021	Aug 06, 2020	Aug 30, 2019
1 Cash Credit/ WCDL	Long term	230.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Fund based (Interchangeable)*	Long term	-	-	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3 Letter of Credit/ Bank Guarantee (Interchangeable)*	Short term	(20.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1
4 Bank Guarantee	Short term	20.00	-	[ICRA]A1+	[ICRA]A1+	-	-
5 Unallocated limit	Long/ Short term	10.00	-	[ICRA]A+ (Stable)/ [ICRA]A1+	-	-	-

*Sublimit of Cash Credit

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based - Cash Credit/ WCDL	Simple
Short term – Non-fund based - Letter of Credit/ Bank Guarantee (Interchangeable)*	Very simple
Short term – Non-fund based - Bank Guarantee	Very simple
Long term / Short term – Unallocated limit	Not applicable

*Sublimit of Cash Credit

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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit/ WCDL	NA	NA	NA	230.00	[ICRA]A+ (Stable)
NA	Letter of Credit/ Bank Guarantee (Interchangeable)*	NA	NA	NA	(20.00)	[ICRA]A1+
NA	Bank Guarantee	NA	NA	NA	20.00	[ICRA]A1+
NA	Unallocated limit	NA	NA	NA	10.00	[ICRA]A+ (Stable)/ [ICRA]A1+

Source: Company; *Sublimit of Cash Credit

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

Annexure II: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Kaushik Das

+91 33 7150 1104

kaushikd@icraindia.com

Sujoy Saha

+91 33 7150 1184

sujoy.saha@icraindia.com

Sovanlal Biswas

+91 33 7150 1181

sovanlal.biswas@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.