

December 11, 2023

Bhagwati Power & Steel 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 / Working capital demand loan	50.50	50.50	[ICRA]A- (Stable); Reaffirmed
Short term – Non-fund based – Letter of credit / Bank guarantee	40.00	40.00	[ICRA]A2+; Reaffirmed
Short term – Non-fund based – Forward contract	1.00	1.00	[ICRA]A2+; Reaffirmed
Total	91.50	91.50	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation continues to derive comfort from the favourable financial profile of Bhagwati Power & Steel Limited (BPSL), reflected in its conservative capital structure and comfortable debt coverage metrics, supported by the company's limited borrowings. The ratings also consider the presence of captive power plants (CPP) leading to availability of power at a cheap rate that positively impacts BPSL's cost structure, given the power-intensive nature of the operation. ICRA notes the proximity of BPSL's plant to the sources of the key raw materials (iron ore and coal) and coal linkages obtained by the company, which meet ~50% of its overall coal requirement, providing raw material security to an extent. Besides, an expansion of BPSL's rolling mill capacity by 36,000 tonne per annum (TPA) in the recent past is likely to result in an improvement in forward integration and value addition in its operation.

The ratings are, however, constrained by the vulnerability of BPSL's revenues and cash flows to the cyclicity inherent in the steel industry and its moderate scale of operations. The company's overall sales volume declined gradually over the last three fiscals. In FY2023, its operating margin contracted significantly to 6.4% from 10.3% in FY2022, on the back of a sharp rise in non-coking coal prices, higher power and fuel costs and increase in the cost of consumables due to extensive maintenance of facilities. Nevertheless, a significant softening of coal prices in the current fiscal is likely to support its margin, despite some moderation in realisations. ICRA also notes the unsecured loans extended by the company to a related party (Rs. 38.7 crore as on March 31, 2023) at a low rate of interest, which is likely to negatively impact BPSL's ROCE.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that BPSL's efficient operations, with the presence of a captive power plant, will continue to support its profitability. The company's capital structure and debt coverage metrics are also likely to remain comfortable with limited borrowings and healthy profits at an absolute level.

Key rating drivers and their description

Credit strengths

Comfortable capital structure and debt coverage metrics – BPSL's capital structure continues to be conservative. The company's long-term debt declined consistently, post FY2019, due to sizeable prepayment of term loans. As on March 31, 2023, its long-term debt comprised only a small amount of lease liability. This, coupled with limited working capital borrowings (which declined significantly in FY2023) and improved tangible net worth due to healthy accretion to reserves, led to a gradual decline in the company's gearing to 0.1 times as on March 31, 2023, from 0.6 times as on March 31, 2019. The company's conservative capital structure and healthy profits at an absolute level supported the debt coverage metrics. In FY2023, the debt coverage metrics remained comfortable despite a reduction in profitability, reflected in an interest coverage of 8.7 times

(10.8 times in FY2022), total debt relative to OPBDITA of 0.7 times (1.2 times in FY2022) and net cash accrual relative to the total debt of 122% (78% in FY2022).

Presence of captive power plant ensures availability of power at a cheap rate – The company's steel melting operation is highly power intensive. However, power generated through BPSL's captive power plant at a cheap rate meets a major part of its overall power requirement, which positively impacts the cost structure.

Proximity to raw material sources; coal linkages provide raw material security to some extent – BPSL procures a major portion of its iron ore and coal requirements from the mines of NMDC Limited and South Eastern Coalfields Limited (SECL), respectively, in Chhattisgarh. The plant's proximity to raw material sources leads to low landed costs of the inputs. The company has non-coking coal linkages of ~40,000 TPA from SECL for manufacturing of sponge iron as well as power generation, which meets ~50% of the coal requirement, providing raw material security to some extent. However, the company also needs to buy additional coal from SECL through auctions and procures imported coal of higher quality, which is mixed with domestic coal for sponge iron production. BPSL's holding company, Ghanashyam Misra & Sons Private Limited (GMSPL), is involved in iron ore mining in Odisha. At present, BPSL is not procuring iron ore from GMSPL, however, the Group's presence in iron ore mining also provides raw material security, to some extent.

Addition of rolling mill capacity likely to improve value addition – BPSL's additional rolling mill capacity of 36,000 TPA has started operation in the current fiscal. With this, the company's rolling mill capacity (93,670 TPA) has become aligned with its billet manufacturing capacity (95,400 TPA), and hence, is expected to result in an improvement in vertical integration and value addition.

Credit challenges

Exposed to cyclical nature inherent in the steel industry – The steel industry is characterised by its inherent cyclical nature. This is likely to keep the profitability and cash flows of all the players in the industry, including BPSL, volatile. A slowdown in the global steel demand is likely to exert pressure on steel realisations, going forward. However, the domestic steel demand is likely to remain resilient in the near term.

Moderate scale of operations; sales volumes declined over the last three fiscals – The company's billet and rolling mill capacities stand at a moderate level, compared to other established players in the secondary steel industry. BPSL's overall sales volumes declined consistently over the last three fiscals. In the current fiscal, the company's sales volume is likely to improve with an increase in the rolling mill capacity and capacity utilisation. Nevertheless, its ability to increase penetration in the competitive secondary steel market would remain important for its sales volume growth, going forward.

Profitability declined significantly in FY2023 due to adverse movement in input costs; however, likely to improve to some extent in the current fiscal – BPSL remains exposed to adverse movements in the prices of raw materials, primarily iron ore and non-coking coal, which accounted for around 25% and 28% of the total raw material cost, in FY2023, respectively. Coal linkages with SECL, for which the prices remain fixed, partially (nearly 50%) meet BPSL's coal requirement, and the balance coal is procured from the market. The market prices of non-coking coal increased sharply in FY2023, adversely impacting BPSL's cost structure. This, coupled with higher power and fuel costs and consumable costs arising from extensive maintenance of facilities, led to a contraction in BPSL's operating margin to 6.4% in FY2023 from 10.3% in FY2022. However, a significant softening of coal prices in the current fiscal is likely to result in an improvement in BPSL's operating margin, notwithstanding a moderation in realisations.

Liquidity position: Adequate

BPSL's liquidity is likely to remain adequate. Its fund flow from operation declined in FY2023 due to a dip in operating profitability, however, the cash flow from operations improved significantly to Rs. 26.0 crore in FY2023 from Rs. 3.8 crore in FY2022, supported by a significant reduction in advances for raw materials. As a result, the company's retained cash flow and free cash flow also improved in FY2023. The cash flow from operations is likely to remain healthy in the near to medium

term. BPSL does not have any long-term debt (except a small amount of lease liability). The company's undrawn working capital limit stood at ~Rs. 41 crore as on June 30, 2023, supporting the liquidity position.

Rating sensitivities

Positive factors – ICRA may upgrade BPSL's ratings if it achieves a significant turnover growth while maintaining healthy profitability and cash accruals. Specific credit metrics that may lead to an upgrade of the ratings include an ROCE of more than 20%, on a sustained basis.

Negative factors – Pressure on the ratings may emerge if there is any significant contraction in the company's scale of operations and profitability. In addition, any sizeable debt-funded acquisition or a substantial increase in funding support to related parties, adversely impacting BPSL's liquidity position and credit metrics, may trigger a ratings downgrade. ICRA may also downgrade BPSL's ratings if its total debt/OPBDITA remains above 2 times, on a sustained basis.

Analytical approach

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

About the company

BPSL was incorporated in 2004 by the Raipur-based Kejriwal family for setting up a steel manufacturing facility in Raipur. The company commenced commercial production of sponge iron in January 2006 with a capacity of 66,000 TPA. Later, in September 2011, BPSL commissioned a captive power plant of 10 mega watt (MW) - with 6 MW, based on waste heat recovery and 4 MW, based on atmospheric fluidised bed combustion technology. In December 2014, the company commissioned a steel-melting capacity of 36,000 TPA, with the capacity raised to 66,000 TPA in February 2016. In February 2017, BPSL commissioned a rolling mill with a capacity of 30,000 TPA for production of structural steel items like angles, channels, joists, etc. The billet and rolling mill capacities were enhanced to 95,400 TPA and 57,670 TPA, respectively, in March 2020. BPSL has recently installed an additional rolling mill capacity of 36,000 TPA, increasing the mill capacity to 93,670 TPA.

In FY2016, the ownership structure of BPSL underwent a change. Ghanashyam Misra & Sons Private Limited (GMSPL), promoted by the Kolkata-based Misra family, infused equity of around Rs. 40 crore in BPSL. As a result, GMSPL became the holding company of BPSL, with a majority shareholding of 51.53%. GMSPL is involved in iron ore mining in Odisha.

Key financial indicators (audited)

BPSL (Standalone)	FY2022	FY2023
Operating income	317.0	337.7
PAT	27.6	16.1
OPBDIT/OI	10.3%	6.4%
PAT/OI	8.7%	4.8%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	1.2	0.7
Interest coverage (times)	10.8	8.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		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
				Dec 11, 2023	Oct 17, 2022	Jul 12, 2021	Oct 08, 2020
1	Fund based - Cash credit / Working capital demand loan	50.50	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2	Non-fund-based - Letter of credit/ Bank guarantee	40.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
3	Non-fund based - Forward contract	1.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
4	Fund based - Term loans	-	-	-	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
5	Unallocated limit	-	-	-	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Cash credit / Working capital demand loan	Simple
Short term – Non-fund based – Letter of credit / Bank guarantee	Very simple
Short term – Non-fund based – Forward contract	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 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
-	Fund based - Cash credit / Working capital demand loan	NA	NA	NA	50.50	[ICRA]A- (Stable)
-	Non-fund-based - Letter of credit/ Bank guarantee	NA	NA	NA	40.00	[ICRA]A2+
-	Non-fund based - Forward contract	NA	NA	NA	1.00	[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 – Not Applicable

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