

## Bansal Alloys & Metals Private Limited

September 04, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based facilities	20.00	20.00	[ICRA]BBB (Stable); upgraded from [ICRA]BBB-(Stable)
Long-term Overdraft	-	3.00	[ICRA]BBB (Stable); assigned
Short-term Non-Fund Based facilities	35.20	35.20	[ICRA]A3+; upgraded from [ICRA] A3
<b>Total</b>	<b>55.20</b>	<b>58.20</b>	

### Rating action

ICRA has upgraded the long-term rating to [ICRA]BBB (pronounced ICRA triple B) from [ICRA]BBB- (pronounced ICRA triple B minus) for the Rs. 20.00-crore fund-based facility and assigned the long-term rating of [ICRA]BBB (pronounced ICRA triple B) for the Rs. 3.00-crore enhanced overdraft facilities of Bansal Alloys & Metals Private Limited (BAMPL). The outlook on the long-term rating is Stable. ICRA has also upgraded the short-term rating on the Rs. 35.20 crore non-fund based limits of BAMPL to [ICRA]A3+ (pronounced ICRA A three plus) from [ICRA]A3 (pronounced ICRA A three).

### Rationale

For arriving at the ratings, ICRA has taken into consideration the overall business risk profile of the Bansal Group, which includes Bansal Alloys & Metals Private Limited (BAMPL), Bansal Iron & Steel Rolling Mills (BISRM, rated at [ICRA]BB+/Stable), and Bansal Ispat Udyog (BIU, rated at [ICRA]BB+/stable), because of the common management and similar line of business.

The rating upgrade takes into account the considerable improvement in the Group's scale during FY2018 on the back of favourable demand and remunerative steel prices, a trend which ICRA expects is likely to persist in the near-to-medium term. The rating favourably factors in the expected improvement in future operating margins post successful installation of the integrated caster and rolling mill under BAMPL for manufacturing of high value-added products like angles, channels etc in-house (currently done through job work). The rating also draws comfort from the long track record of the Group's promoters in the steel industry, a wide range of product mix, and its presence in one of the largest steel markets in India, viz. Mandi Gobindgarh, which provides a ready market for its raw materials as well as finished goods. Further, ICRA considers the Group's and BAMPL's healthy financial profile, characterised by comfortable gearing levels as on March 31, 2018 with total debt majorly comprising only the working capital borrowings and the interest bearing unsecured loans from promoters with no major fixed debt repayment obligation.

The ratings are, however, constrained by the Group's low operating margins due to the low value-added nature of the products. The rating is further constrained by the expected moderation in financial profile from FY2019 owing to the proposed large debt-funded capital expenditure. ICRA takes into consideration the intense competition in the fragmented and commoditised structural steel market, which limits pricing flexibility and thus impacts the margins. The ratings are further constrained by the exposure to foreign exchange rate fluctuation risks, as a major portion of the raw material requirement is met through imports, as the company follows only a selective hedging policy.

## Outlook: Stable

The Stable outlook reflects ICRA's expectation that the Bansal Group will benefit from its established presence in the domestic steel industry and the extensive experience of its promoters. The outlook may be revised to Positive if considerable growth in revenue and profitability, and better accruals, strengthen the financial risk profile. Conversely, the outlook may be revised to Negative if profitability declines or there is further weakening in the capital structure caused by increased working capital requirements or any large debt-funded capital expenditure.

## Key rating drivers

### Credit strengths

#### **Significant experience of the management and established operational track record of the Group in the steel sector–**

The Bansal Group is involved in the manufacturing of structural steel products since 1971 through BISRM and subsequently through BAMPL in 1990 and BIU in 2011. Given the long experience of the promoter Group in the industry and the established operational track record, the Group has been able to develop a wide customer base.

**Strong growth in scale during FY2018, a trend likely to continue** – On the back of favourable demand and realisations, Bansal's consolidated operating income grew at a healthy rate of 31% in FY2018. BAMPL's standalone sales improved by 36% in FY2018 on the back of regular orders from local longs and flats manufacturers and are expected to inch up further in the current year. Healthy domestic demand from the key steel-consuming industries including automobiles and construction, would support its revenue growth in the near to medium term.

**BAMPL's operating margins expected to improve post successful installation of rolling mill** – BAMPL is in the process of installing an integrated caster and a rolling mill, which helps in controlling cost to an extent for manufacturing products like angles, channels etc in-house in FY2019 (currently done through job work totalling to ~10% of the total revenue in FY2018).

**Location-specific advantage** – BAMPL has production facilities for manufacturing alloy and steel billets at Mandi Gobindgarh, Punjab. It procures a major portion of its sponge iron requirement from dealers based in the domestic market, located close to its plant, thus reducing the freight costs.

**Healthy financial profile characterised by comfortable gearing** – Even though BAMPL's debt levels in the form of unsecured debt from promoters had increased as of March 2018, the capital structure remained comfortable with a gearing of 0.8 times due to consistent net worth accretion. The Group's capital structure also remained comfortable amid increase in gearing from 0.8 times as of March 2017 to 1.0 times as of March 2018 due to increase in unsecured debt from promoters. With total debt mainly comprising working capital borrowings and interest bearing unsecured loans from promoters with no major fixed debt repayment obligation, the financial profile remains healthy.

### Credit weaknesses

**Low operating margins due to low value-added nature of the products** - The company's operating margin remains thin on the back of intense competition prevalent in the structural steel market. Also, the low value-added nature of products and lack of backward/forward integration result in sustained pressure on the operating profit margins (which have continued to remain in the range of 2%-3%), translating into modest coverage indicators. Nonetheless, going forward, operating margins are likely to improve with successful installation of rolling mill.

**Intense competition from the highly fragmented and commoditised steel market keeps margins under pressure** –The ingot/billet, structural manufacturing businesses are characterised by intense competition across the value chain due to low product differentiation, and consequent high fragmentation and low entry barriers, which limit the pricing flexibility of the players, including BAMPL.

**Susceptibility of margins to foreign exchange rate fluctuation risks as a major portion of the raw material requirement is met through imports** – BAMPL's operations is raw material intensive with raw materials and consumables consumption accounting for over 70% of its operating income over the last four fiscals. Iron scrap is imported from the US, the UK, South Africa, Europe and various countries in the Middle East and Africa, which exposes the company to forex risk as the company follows only a selective hedging policy.

**Exposure to cyclicity inherent in the steel industry** –The domestic steel industry is cyclical in nature and is likely to impact the cash flows of the steel players, including the Bansal Group.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Entities in the Ferrous Metals Industry](#)

## **About the Company:**

BAMPL manufactures mild/alloy steel billets and rolled steel products. The company has been promoted by Mr. Prem Bansal, who along with his sons, looks after the operations of the company. The shares of BAMPL are entirely held by the promoters and their family members. The company's manufacturing facility is located in Mandi Gobindgarh, Punjab with an installed capacity of 96,000 metric tonne per annum.

**Bansal Iron & Steel Rolling Mills (BISRM) (rated at [ICRA]BB+(Stable) as of March 2017)** is a partnership firm involved in the rolling of 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 located in Mandi Gobindgarh (Punjab) with an installed annual capacity of 39,000 MT per annum.

**Bansal Ispat Udyog (BIU) (rated at [ICRA]BB+(Stable) as of March 2017)** is a partnership firm involved in the manufacturing of 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. The manufacturing facility is located in Mandi Gobindgarh (Punjab) with an installed annual capacity of 96,000 MT per annum.

### Key Financial Indicators (Standalone)

	FY2017 (Audited)	FY2018 (Provisional)
Operating Income (Rs. crore)	270.4	367.6
PAT (Rs. crore)	1.1	3.6
OPBDIT/ OI (%)	2.8%	2.7%
RoCE (%)	7.4%	9.7%
Total Debt/ TNW (times)	0.7	0.8
Total Debt/ OPBDIT (times)	4.5	4.1
Interest coverage (times)	1.7	2.8
NWC/ OI (%)	24.2%	20.9%

### Key Financial Indicators (Consolidated)

	FY2017 (Audited)	FY2018 (Provisional)
Operating Income (Rs. crore)	565.6	741.7
PAT (Rs. crore)	6.3	8.7
OPBDIT/ OI (%)	3.1%	2.6%
RoCE (%)	11.7%	13.0%
Total Debt/ TNW (times)	0.8	1.0
Total Debt/ OPBDIT (times)	3.3	3.4
Interest coverage (times)	2.1	2.8
NWC/ OI (%)	16.9%	13.9%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 2018 (Rs Crore)	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
				September 2018	April 2017	Jan 2016	May 2015	
1	Fund-based facilities	20.00	11.60	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
2	Over-Draft	3.00	-	[ICRA]BBB (Stable)	-	-	-	
3	Non-fund-based facilities	35.20	17.52	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://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	Fund-based facilities	-	NA	-	20.00	[ICRA]BBB (Stable)
NA	Over-Draft	-	NA	-	3.00	[ICRA]BBB (Stable)
NA	Non-fund-based facilities	-	NA	-	35.20	[ICRA]A3+

Source: BAMPL.

## ANALYST CONTACTS

**Ravichandran. K**  
+91 44 4596 4301  
[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Krithi Gugan K**  
+91 9788466678  
[krithi.gugan@icraindia.com](mailto:krithi.gugan@icraindia.com)

**Srinivasan. R**  
+91 44 4596 4315  
[r.srinivasan@icraindia.com](mailto:r.srinivasan@icraindia.com)

**Vipin Jindal**  
+91 124 4545 355  
[vipin.jindal@icraindia.com](mailto:vipin.jindal@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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