April 03, 2024

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
Long term – Fund-based – Cash Credit/ WCDL	230.00	230.00	[ICRA]A+ (Stable); Reaffirmed
Short term – Non-fund based – Bank Guarantee	20.00	40.00	[ICRA]A1+; Reaffirmed/ Assigned
Short term – Non-fund based – Letter of Credit/ Bank Guarantee (Interchangeable)	(20.00)	(30.00)	[ICRA]A1+; Reaffirmed/ Assigned
Long-term/ Short term – Unallocated limit	10.00	0.00	-
Total	**260.00**	**270.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for Captain Steel India Limited (CSIL) continues to consider 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 ratings also draw comfort from the company's strong financial profile with healthy cash accruals, a conservative capital structure and strong debt coverage metrics due to limited debt, notwithstanding a deterioration in the credit metrics in FY2023. A significant increase in input costs, including power and fuel expenses, resulted in a contraction in CSIL's operating margin by ~300 basis points in FY2023. Nevertheless, its profits and cash accruals at an absolute level remained healthy. In FY2024, despite a moderation in realisation, the operating margin is likely to remain at FY2023 level due to a reduction in power and fuel costs and raw material prices. The company has planned a brownfield expansion of the steel melting capacity in its own plant in Asansol and in its conversion partner's plant located in Patna, Bihar. This is likely to entail a combined cash outlay of Rs. 60-65 crore by FY2025 (to be funded by internal accruals), however, the same would provide the benefit of enhanced backward integration by eliminating CSIL's dependence on external sourcing of billets for manufacturing TMT bars. The company has also planned a large greenfield capex over the coming two years, under a subsidiary, for which a land plot has been recently allotted by the Government of West Bengal. The first phase of the capex, for which the cost is estimated at ~Rs. 600 crore, is likely to be funded by term loans of up to Rs. 300 crore and the balance from internal sources. Nevertheless, the timeliness of the capex remains subject to receipt of pollution clearances. The capex is significantly large compared to CSIL's current balance sheet size, and would expose the company to project related risks, including the risks of cost and time overrun and stabilisation of facilities as per the expected operating parameters, post commissioning. However, the healthy financial flexibility of the promoter Group and CSIL's strong liquidity position, given its sizeable free cash and investments portfolio and buffer available in the working capital limits, would mitigate the funding risks of the project to a large extent.

The ratings are constrained by the limited backward integration in the company's current operations, restricting value addition. Besides, CSIL remains exposed to the cyclicality inherent in the steel industry and competitive nature of the secondary steel industry, which is likely to keep margins under check despite a 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 strong market positioning, particularly in eastern India, would sustain going forward, notwithstanding an intense competition in the secondary steel market. 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 conversion 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. 49.8 crore as on March 31, 2023) to JMD for modernisation and upgradation of its rolling mill unit, which has a TMT bar manufacturing capacity of 1,80,500 tpa. CSIL also used to produce TMT bars in a leased unit, with a capacity of 96,000 tpa, located at Barjora, West Bengal. However, the company has discontinued production in the leased unit. The company's adequate product quality and expansion of manufacturing base through third-party 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 is also focussing on advertising at the regional and national levels. Such promotional activities have helped the company in strengthening its brand position, thereby commanding a premium over the market rates of TMT bars. In addition, CSIL's strong distribution network, particularly in the eastern India, also helped augment its sales over the years. Nevertheless, the company's advertising and promotional expenses (including discounts and incentives) remained high (~Rs. 118 crore in FY2023).

Healthy cash accrual and low debt reflect a strong financial profile, notwithstanding a deterioration in the credit metrics in FY2023 – The company's operating income remained robust and improved by 6% to Rs. 2,095.2 crore in FY2023 from Rs. 1,969.0 crore in FY2022, aided by buoyant realisations. Its net cash accrual also remained healthy at Rs. 58.5 crore in FY2023, notwithstanding a significant decline from Rs. 102.6 crore in FY2022 on the back of a contraction in the operating profit due to elevated input costs. In FY2024, the company's operating income is likely to drop by 10-11%. Nevertheless, CSIL's profits and cash accruals would continue to remain healthy. Production of a significant portion of TMT bars through conversion arrangement has led to an asset-light operation. CSIL does not have any long-term loan at present. The company's working capital intensity of operations remains low-to-moderate, also limiting the working capital debt. Low debt (Rs. 11.6 crore as on March 31, 2023) vis-à-vis a healthy tangible net worth (Rs. 520.8 crore as on March 31, 2023) led to a conservative capital structure, reflected by TOL/TNW of 0.3 times over the last three fiscals. The company's healthy profits at an absolute level and low debt led to strong debt coverage metrics, despite a moderation in FY2023, an interest coverage of 8.3 times (18.9 times in FY2022) and DSCR of 7.4 times (13.5 times in FY2022).

Credit challenges

Lack of backward vertical integration in existing operation, however, the same is likely to improve, going forward – CSIL's operations are partially backward integrated, and it sources a significant portion of the billets required for TMT bar production from the market. Such limited backward integration in operation restricts value addition and exposes it to fluctuations in raw material prices compared to the relatively more integrated players. However, the company's plans to increase its in-house billet manufacturing capacity in the near term and to install sponge iron facility and captive power plants, going forward, are likely to enhance value addition.

Competitive nature of the industry likely to keep margins under check, however, CSIL's established brand fetches 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 cyclicality inherent in the steel industry, as reflected by volatile margins in recent years – The steel industry is characterised by its inherent cyclicality. This is likely to keep the profitability and cash flows of all the players in the industry, including CSIL, volatile. The company's power cost increased significantly in FY2023 as the power tariff of DVC increased, and arrear electricity charges (from FY2018) of ~Rs. 40 crore was recovered by DVC. In addition, a sharp rise in the prices of coal, used for reheating purpose, and an increase in the prices of other consumables and intermediate raw materials in FY2023 raised the production cost. The company's realisations also improved in FY2023. However, the company was unable to pass on the cost increase fully to its customers, resulting in a decline in its profitability. CSIL's operating margin stood at 3.7% in FY2023 vis-à-vis 6.8% in FY2022. In FY2024, despite a dip in realisations, the company's operating margin is likely to remain stable at FY2023 level (3.8% reported in H1 FY2024) due to normalisation of power and fuel costs and moderation in raw material prices.

Project risks associated with sizeable planned capex – The company has planned to increase the steel melting capacity in its own plant in Asansol and also in the plant of its conversion partner (JMD) to eliminate the need of sourcing billets from the market for TMT bar production. This is likely to entail a cash outlay of Rs. 60-65 crore by FY2025, to be funded by internal accruals. Besides, the company has planned to embark upon a large greenfield capex under its wholly-owned subsidiary named Captain Industries India Pvt. Ltd., in a phased manner. In the first phase of the capex, the company plans to install a cold rolling mill with a capacity of 2,40,000 tonne per annum (TPA), a PVC pipe manufacturing capacity of 50,000 TPA, a sponge iron kiln of 1,000 tonne per day (TPD) capacity and a captive power plant of 30 MW, a major portion of which will be run on flue gas and dolochars obtained from sponge iron production. The total cost of the capex (first phase) is estimated to be ~Rs. 600 crore. Up to ~50% of the cost may be funded by debt and the balance from internal sources, given CSIL's healthy liquidity. The company has recently received allotment of a freehold land of ~250 acres for the project from the Government of West Bengal. CSIL plans to conclude the capex within the coming two years. However, the timeliness of the project will remain contingent on receipt of pollution clearances. The detailed scope of the project, cost, funding pattern, implementation schedule etc. are yet to be ascertained. The company's strong liquidity mitigates funding risks of the project to a large extent. However, CSIL would remain exposed to the risks related to implementation of the project within the budgeted cost and estimated timeframe and stabilisation of the facilities as per the expected operating parameters post commissioning.

Liquidity position: Strong

The company's liquidity position is likely to remain strong. Its cash flow from operations remained healthy at Rs. 119 crore in FY2023 and improved compared to FY2022 (despite a decline in the operating margin), aided by sizeable working capital release. The cash flow from operations is likely to decline in FY2024, but would still remain comfortable. CSIL does not have any long-term loan at present. The company's liquidity is supported by a significant undrawn working capital with respect to the drawing power (~Rs. 95 crore on an average in 7M FY2024) and sizeable free fixed deposits and investments (~Rs. 254 crore at the end of February 2024). CSIL has planned for expansion of the billet manufacturing capacity in its own plant and in the plant of its conversion partner, for which the entire cost (Rs. 60-65 crore) would be funded internally by FY2025. The company has also planned a large greenfield capex (~Rs. 600 crore estimated for the first phase) under a wholly-owned subsidiary, which is likely to be concluded within the next two fiscals, subject to receipt of pollution clearances. The company may avail term loans of up to Rs. 300 crore for the greenfield capex, and the balance cost would be funded internally. CSIL's large investment portfolio, healthy cash flow from operations and undrawn working capital limits provide an adequate headroom for meeting the internal funding requirement of the capex.

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, with maintenance of healthy credit metrics and liquidity.

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 its liquidity position deteriorates. A decline in the company's interest coverage to below 6.5 times on a sustained basis may also trigger ratings downgrade.

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 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, to convert billets into TMT bars, as per CSIL's specifications. In December 2020, CSIL commenced production of TMT bars in a leased unit at Barjora, West Bengal with a manufacturing capacity of 96,000 tpa. However, the company has discontinued operations in the Barjora plant.

Key financial indicators (audited)

CSIL (Standalone)	FY2022	FY2023	H1 FY2024*
Operating income	1969.0	2095.2	908.2
PAT	100.1	57.6	30.1
OPBDIT/OI	6.8%	3.7%	3.8%
PAT/OI	5.1%	2.7%	3.3%
Total outside liabilities/Tangible net worth (times)	0.3	0.3	0.4
Total debt/OPBDIT (times)	0.0	0.2	1.8
Interest coverage (times)	18.9	8.3	9.5

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 03, 2024	-	Feb 24, 2023	Nov 05, 2021
1	Fund based – Cash Credit/ WCDL	Long term	230.00	-	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-Fund Based – Bank Guarantee	Short term	40.00	-	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
3	Non-Fund Based – Letter of Credit/ Bank Guarantee (Interchangeable)	Short term	(30.00)	-	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
4	Fund based (Interchangeable)*	Long term	-	-	-	-	-	[ICRA]A+ (Stable)
5	Unallocated limit	Long/ Short term	0.00	-	-	-	[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 – Bank Guarantee	Very simple
Short term – Non-fund based – Letter of Credit/ Bank Guarantee (Interchangeable)	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
NA	**Fund based – Cash Credit/ WCDL**	NA	NA	NA	230.00	[ICRA]A+ (Stable)
NA	**Non-Fund Based – Bank Guarantee**	NA	NA	NA	40.00	[ICRA]A1+
NA	**Non-Fund Based – Letter of Credit/ Bank Guarantee (Interchangeable)**	NA	NA	NA	(30.00)	[ICRA]A1+

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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