

March 22, 2017

Bhagwati Steel Cast Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Long-term fund based bank facilities	49.55	[ICRA]BBB- Re-affirmed; Outlook revised from 'Stable' to 'Positive'
Short-term non-fund based bank facilities	13.49	[ICRA]A3 Re-affirmed
Total	63.04	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long-term rating to the Rs. 49.55 crore¹ fund-based bank facilities of Bhagwati Steel Cast Private Limited (BSCPL) at [ICRA]BBB- (pronounced ICRA triple B minus). Outlook on the long-term rating is revised to 'Positive' from 'Stable'. ICRA has also reaffirmed the short-term rating to the Rs. 13.49 crore non-fund-based bank facilities of the company at [ICRA]A3 (pronounced ICRA A three).

Detailed Rationale

The revision in the outlook takes into account the company's improved operating performance in 9M FY2017 marked by healthy capacity utilization levels and growth in sales volumes following improved demand from the end-user industries. Consequently, the company also reported improved profitability and coverage indicators in 9M FY2017. ICRA expects the volume growth of the company to sustain in the near to medium term on the back of the company's demonstrated ability to increase market presence and improving demand from infrastructure sector to which the company largely caters.

The ratings continue to favorably factor in incentives available to the company in the form of value added tax (VAT) refunds and electricity duty exemption from the Maharashtra Government and BSCPL's experienced management with a strong technical background. The ratings also take into account the company's low inventory and receivable levels, which partly reduce price risks and counterparty credit risks respectively.

The ratings are, however, constrained by the highly fragmented nature of the thermo mechanically treated (TMT) bar industry with low entry barriers, leading to intense competition and pricing pressures. ICRA also notes that despite an improvement in the current year, coverage indicators of the company remain moderate at an absolute level. The company also remains exposed to cyclicity inherent in the steel industry, which is likely to keep its cash flows volatile.

BSCPL's ability to scale up operations while maintaining profitability remains a key rating sensitivity for the company.

¹ 100 lakh = 1 crore = 10 million

Key rating drivers

Credit Strengths

- Improvement in operating performance in the current year on the back of healthy capacity utilisation and growth in sales volumes
- Incentives available to the company towards electricity duty exemption and VAT refund
- Experienced management with strong technical background, and established brand among TMT manufactures
- Low inventory and receivable levels, which partly reduce price risks and counterparty credit risks respectively

Credit Weaknesses

- Highly fragmented nature of the TMT bar industry with low entry barriers, leading to intense competition and pricing pressures
- Moderate coverage indicators, despite witnessing an improvement in the current year
- Cyclicity inherent in the steel and real estate industries, which is likely to keep BSCPL's cash flows volatile

Detailed description of key rating drivers highlighted above:

Incorporated in 1984, BSCPL is engaged in the manufacturing of TMT bars and mild steel billets at its integrated facility at Sinnar with installed capacity of 108,000 MTPA and 100,000 MTPA respectively. Promoters' long experience and presence in the industry for about three decades has facilitated in establishing strong relations with its customers as well as suppliers. As against sales volumes of 72,184 MT in FY2016, BSCPL's volumes stood at 62,522 MT in 9M FY2017 indicating a healthy volume growth of 15% on annualised basis. Capacity utilization level of the company too improved from about 67% in FY2016 to 77% in 9M FY2017 on the back of improved demand from the end-user industries. The company primarily caters to the real estate and infrastructure sectors mainly through dealers and distributors and has increased its market presence in the infrastructure sector in the current year.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of BSCPL along with its group company – Bhagwati Ferro Metal Private Limited (rated [ICRA]BBB- (Positive)/ A3) – since both the companies operate in the same line of business, have operational linkages and share a common management.

Links to applicable Criteria

- [Rating Methodology for Entities in the Ferrous Metals Industry](#)
- [Corporate Credit Rating –A Note on Methodology](#)

About the Company:

Incorporated in 1984, BSCPL is a part of the Bhagwati group of companies promoted by Mr. M.K. Agarwal and his family. The company is engaged in the manufacture of TMT bars with its manufacturing facility located at Sinnar near Nashik, Maharashtra. The company concluded a modernization-cum-cost reduction project in FY2014 to replace its existing MS Ingot manufacturing facility with Mild Steel (MS) billet manufacturing facility having an installed capacity of 100,000 MTPA and expand its Thermo Mechanically Treated (TMT) bar manufacturing facility to 108,000 MTPA capacity. The sister concern of BSCPL, Bhagwati Ferro Metal Private Limited (BFMPL, rated [ICRA]BBB-/Positive/[ICRA]A3) is engaged in the manufacture of TMT bars (from manufacturing facility at Athal, Silvassa) and MS billet (from manufacturing facility at Sinnar, near Nashik, Maharashtra). BFMPL has installed capacity of 96,000 MTPA for TMT bars and 150,000 MTPA for MS billet.

BSCPL reported a profit after tax of Rs 1.11 crore and Rs 1.66 crore on an operating income of Rs 358.23 crore and Rs 281.64 crore for the period ended March 31, 2016 and December 31, 2016 respectively.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S. No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2016	Date & Rating in FY2015	Date & Rating in FY2014
				March 2017	August 2016	August 2015	August 2014
1	Fund based bank facilities	Long-term	49.55	[ICRA]BBB-(Positive)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	Non-Fund Based bank facilities	Short-Term	13.49	[ICRA]A3	[ICRA]A3	[ICRA]A3+	[ICRA]A3
	Total		63.04				

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

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	30.00	[ICRA]BBB- (Positive)
Term Loan	-	-	FY2019	19.55	[ICRA]BBB- (Positive)
ILC/FLC/BG	-	-	-	13.49	[ICRA]A3

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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.

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