

December 26, 2019

Vishwakarma Refractories Private Limited: Rating Reaffirmed at [ICRA]BBB- (Stable); rated limits enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT - Fund based- Working Capital Facilities	15.00	18.50	[ICRA]BBB- (Stable); reaffirmed
Total	15.00	18.50	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of the group companies – Bhuwalka & Sons Private Limited (BSPL), Deccan Alloys Private Limited (DAPL), Meenakshi Bright Steel Bars Private Limited (MBSBPL), Vishwakarma Refractories Private Limited (VRPL) and Bhuwalka Castings & Forging Private Limited (BCFPL), referred to as the Group – as they operate in a similar line of business, have operational and financial linkages and share a common management.

The ratings reaffirmation takes comfort from the Group's established track record and brand presence, especially in South Indian markets and the extensive experience of the promoters in TMT manufacturing and trading business. The ratings continue to take comfort from the Group's diversified and established clientele across sectors such as real estate, construction and engineering, together with its long relationship with customers and suppliers. The rating also factors in the sustained performance of the Group over the years, which is expected to continue in the near to medium term. The ratings also favourably factors in the significant growth in the Group's revenues in FY2019 primarily aided by increase in sales volume of manufactured goods. Besides, the ratings also continue to favourably factor in the comfortable capital structure with low gearing as on March 31, 2019.

The ratings are, however, constrained by the Group's thin margins due to limited value-addition of its steel processing and trading activities and moderate coverage indicators due to increase in the debt levels. The ratings remain constrained by the cyclicity inherent in the steel business and the intensely competitive nature of the industry, which make margins and cash flows vulnerable to fluctuations in prices and demand. Besides, ICRA takes note of the overall decline in industry steel demand during 8MFY2020 resulting in drop in TMT price realisation which was due to sluggish infrastructure and construction activities.

Key rating drivers

Credit strengths

Extensive experience of the promoters and management in the steel industry and established position of Bhuwalka Premier Group of companies - The Group's operations are overseen by its directors Mr. Sajan Kumar Bhuwalka, Mr. Sushil Kumar Bhuwalka, Mr. Kamal Kumar Bhuwalka and Mr. Kishan Kumar Bhuwalka, who have been involved in the steel industry for over three decades. The Group benefits from the established brand name in southern states of India.

Established relationship with diversified customer base and reputed suppliers - Given the long experience of the promoters in the industry, the Group has been able to develop an established relation with a wide network of suppliers and customers. It has a diversified and reputed clientele across sectors such as real estate, construction and engineering.

Healthy revenue growth in FY2019 on back of increase in sales volumes - The Group's consolidated OI grew by ~14% to Rs. 566.47 crore in FY2019 from Rs. 495.56 crore in FY2018. The Group derived ~78% of the revenues from manufacturing division and the balance 22% from the trading segment. The revenue growth was supported by uptrend in steel prices and increase in the sales volume primarily from the manufacturing division with improved demand from customers.

Comfortable capital structure in FY2019 - The Group's debt level increased in FY2019 as against the previous year, primarily due to high utilisation of working capital. However, its capital structure remained comfortable with gearing of 1.01 times as on March 31, 2019, albeit increase from 0.70 times as on March 31, 2018.

Credit challenges

Moderate coverage indicators due to thin profitability and increase in debt levels - The Group's profitability at operating and net levels remain modest due to limited value addition and intensely competitive nature of business. The Group reported an operating margin of 3.16% and net margin of 1.00% in FY2019. The Group's coverage indicators stood at moderate levels with Total Debt/OPBDITA of 6.40 times, Interest Coverage of 2.29 times and DSCR of 1.85 times during FY2019, due to thin profitability coupled with increase in debt levels.

Intense competition in a fragmented and commoditised market - The Group's operations are concentrated towards trading of steel products like TMT bars, channels and rounds, the market for which is highly fragmented and commoditised, leading to price-based competition that keeps operating profitability under check.

Exposure to the cyclicity associated with the steel industry - The domestic steel industry is cyclical in nature and is likely to result in volatility in the cash flows of the steel players. The Group's revenue and profitability remain vulnerable to volatility in prices of key raw materials and TMT bars, due to cyclicity associated with the industry. Further, its operations are vulnerable to any adverse change in demand-supply dynamics in construction sector, especially in southern states of India.

Liquidity position: Adequate

The liquidity profile is adequate with sufficient buffer from undrawn working capital limits. The Group's working capital utilisation remained moderate with an average utilisation of ~76% of its sanctioned limits for the last twelve months ending October 2019. The term loan repayment obligations are low at ~Rs. 2.30 crore in FY2020. It has planned capex of ~Rs. 10 crores in FY2020, which is to be funded by the sanctioned term-loans of Rs. 7.50 and the balance through internal accruals. Overall ICRA expects the cash accruals of the company to be sufficient to meet the term loan repayment obligations and margin money for the capital expenditure and additional working capital requirements if any.

Rating sensitivities

Positive triggers - We could upgrade Bhuwalka's rating if its scale of operations continues to grow at a healthy pace, while improving its profitability and coverage indicators. Specific credit metrics that could lead to an upgrade of rating include RoCE greater than 13% and TD/OPBITDA less than 3 times on a sustained basis.

Negative triggers - Negative pressure on the company's rating could arise if there is decline in the revenues or profitability, leading to weakened coverage indicators. Any stretch in the working capital cycle resulting in tight liquidity could also lead to a downgrade. Specific credit metrics that could lead to a downgrade of rating include interest cover of less than 2 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Ferrous Metals Industry
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various group companies as listed in Annexure-2

About the company

Vishwakarma Refractories Private Limited (VRPL) was incorporated in 1982 as Vishwakarma Castings Limited and was renamed to its current form in 1996. VRPL manufactures refractory bricks, operating out of their facility at Kolar, Karnataka. It produces and supplies refractory bricks to Steel, Cement and Various other industries including non-ferrous metals like copper. It also trades in TMT bars. It is equipped with modern machineries for manufacturing high quality refractory bricks & monolithics for meeting stringent requirements of wide range of customers. It has an installed capacity of 16,000 MT of refractory products, mainly High Alumina / Fireclay, Basic refractories, Garnic boards Oxide & Nitride bonded Silicon carbide products and various types of monolithics. It is also an ISO 9001:2008 certified company. Its wide product range and experience in catering to customer requirements (predominantly – Steel Industry) has enabled it to develop bricks with high quality parameters, which has helped in increasing its penetration and widen its customer base. It supplies refractory bricks to several renowned industry players including: Rourkela Steel Plant (SAIL), Bhilai Steel Plant (SAIL), JSW Steel Limited, Vijaya Steels Ltd, Ispat Industries Ltd, and Tata Refractories Limited, among others.

Key financial indicators - Standalone (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	55.21	50.82
PAT (Rs. crore)	0.68	0.89
OPBDITA/OI (%)	6.65%	7.17%
RoCE (%)	9.83%	9.04%
Total Outside Liabilities/Tangible Net Worth (times)	2.05	2.12
Total Debt/OPBDITA (times)	4.70	5.65
Interest Coverage (times)	1.69	1.75
DSCR	1.59	1.65

Key financial indicators - Consolidated (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	495.56	566.47
PAT (Rs. crore)	4.07	5.68
OPBDITA/OI (%)	3.98%	3.16%
RoCE (%)	8.83%	7.26%
Total Outside Liabilities/Tangible Net Worth (times)	1.47	1.70
Total Debt/OPBDITA (times)	3.84	6.40
Interest Coverage (times)	1.88	2.29
DSCR	1.77	1.85

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2020)		Rating Dec 26, 2019	Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)		FY2019 Aug 03, 2018	FY2018 Apr 26, 2017	FY2017
1 Cash Credit	Long Term	18.50	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	-

Amount in Rs. crore

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: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	18.50	[ICRA]BBB- (Stable)

Source: Vishwakarma Refractories Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Bhuwalka & Sons Private Limited	-	Full consolidation
Deccan Alloys Private Limited	-	Full consolidation
Meenakshi Bright Steel Bars Private Limited	-	Full consolidation
Vishwakarma Refractories Private Limited	-	Full consolidation
Bhuwalka Castings & Forging Private Limited	-	Full consolidation

ANALYST CONTACTS

K Ravichandran

+91 44 45964301

ravichandran@icraindia.com

R Srinivasan

+91 44 45964315

r.srinivasan@icraindia.com

Nikhil Mathew

+91 80 49225569

Nikhil.mathew@icraindia.com

Kashika Khiani

+91 80 49225571

kashika.khiani@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

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

Website: 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) 2556 0194/ 6606 9999

© Copyright, 2019 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