

October 07, 2020

Baba Ispat (P) Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Cash Credit	9.00	11.00	[ICRA]BB+ (Stable); reaffirmed
Fund based - Working capital term loan	1.00	-	-
Non Fund Based – Bank Guarantee	1.00	1.55	[ICRA]A4+; reaffirmed
Untied limits	4.00	2.45	[ICRA]BB+ (Stable)/[ICRA]A4+; reaffirmed
Total	15.00	15.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings considers Baba Ispat (P) Ltd's (BIPL) established track record of operations and long experience of the promoters in the steel industry. The ratings also factor in the low working capital intensity of the business, which would support business expansion with lower incremental working capital requirement. Further, the ratings continue to draw comfort from the company's conservative capital structure and moderate level of debt coverage indicators.

The ratings are, however, constrained by the company's moderate scale of current operations and lower net worth base. ICRA also notes the decline in the top line and profitability of the company in FY2020 due to sluggish demand and a fall in steel prices. Further, the highly fragmented and commoditised market of the steel industry leads to an intense competition, which limits the pricing flexibility of all the players, including BIPL. Moreover, profitability and cash flows of the company would remain susceptible to inherent volatility in raw materials and finished goods prices. Besides, cyclicity inherent in the steel industry is likely to keep its cash flows volatile.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that BIPL will continue to benefit from its established market position for manufacturing of structural steel products and low financial leverage of the company.

Key rating drivers and their description

Credit strengths

Experience of promoters in the steel industry – BIPL was established in 2002 and commenced its commercial operation in 2004. The promoters of the company are associated with the steel industry for about two decades. The company derives support from the extensive experience of its promoters, whose reputation helped BIPL get sizeable orders from its customers. The extensive experience of the promoters is likely to mitigate the operational risk to a large extent, going forward.

Conservative capital structure and moderate level of coverage indicators – The capital structure of the company has remained conservative over the past few years on the back of low reliance on external debt and a steady accretion to net worth. The gearing of the company stood at 0.55 times as of March 31, 2020 (provisional) compared to 0.75 times as on

March 31, 2019. The coverage indicators have undergone some moderation in FY2020 (provisional) due to a decline in the profits as well as cash accruals and stood at a moderate level with an interest coverage of 1.56 times and DSCR of 2.56 times in FY2020 (provisional). The coverage indicators are likely to improve in FY2021 on the back of an expected recovery in demand and an improvement in realisation, resulting in an improvement in profits and cash accruals from business.

Low working capital intensity of operation – The working capital intensity of operation remained low at 8-10% in the past few years because of lower receivables and inventory holding. The receivable position fluctuates based on the sales mix, whereas the company extends a credit period of 30-45 days to its customers. The company normally keeps an inventory for around 45 days, however, due to pricing benefit the company procured raw materials in huge volumes, which increased its inventory to 62 days in FY2020 (provisional). The low working capital intensity allows the company to expand its business with lower incremental working capital requirement.

Credit challenges

Decline in turnover and profits in FY2020 – The top line of the company fell to Rs. 92.46 crore in FY2020 (provisional) from Rs. 147.16 crore in FY2019, resulting in a decline in the net cash accruals to Rs. 1.71 crore in FY2020 (provisional) from Rs. 3.05 crore in FY2019. The primary reason for the decline in the top line was lower-than-expected spending by the Government on infrastructure, which had lowered demand and realisation in FY2020. Further, the operating margin declined to 1.85% in FY2020 (provisional) from 3.29% in FY2019 as the top line was not able to subsume the fixed costs of the company.

Moderate scale of current operations and low net worth base – The company's scale of operations has remained relatively small compared to its peers with its manufacturing plant located at a single location. The company recorded a top line of Rs. 92.46 crore in FY2020 (provisional). ICRA also notes that BIPL's net worth has remained relatively lower at around Rs. 13.82 crore as on March 31, 2020 (provisional). However, the same is likely to improve, going ahead, as a result of moderate accretion to reserves.

Fragmented and commoditised market due to intense competition – The long steel product market is highly fragmented and commoditised, leading to an intense competition, which restricts pricing flexibility for all the players in the industry. This keeps the margins under check for all the players in the industry, including BIPL.

Exposure to cyclicity inherent in steel industry; profitability and cash flows remain susceptible to inherent volatility in raw materials and finished goods prices – The domestic steel industry is cyclical in nature, which is likely to impact the cash flows of all the long product manufacturers, including BIPL. The company's operations are vulnerable to any adverse change in the demand-supply dynamics in the infrastructure and real estate sector, especially in West Bengal. The operational profile of the company is constrained by the lack of vertical integration in the standalone rolling mill operation, which also leads to limited value addition to its products. However, the company is planning to make capital expenditure in FY2021 to manufacture MS angle/channel of smaller sizes, which could cater to the commercial vehicles and tractors segment as well.

Liquidity position: Stretched

The company has generated positive cash flow from operation in the past five years, driven by adequate cash accruals from business and low working capital intensity of operation. The average utilisation of fund-based working capital remained high at 74% during the last 12 months ending August 2020, leaving less cushion for future working capital requirement. The company has repaid an unsecured loan of Rs. 1.00 crore in June 2020 by liquidating its investment in mutual fund, which brought down the liquid investment balance to Rs. 0.59 crore as of September 2020. Further, the company is planning to incur capital expenditure of around Rs. 1.75 crore in FY2021, which is proposed to be partially funded by a term loan. In view of debt-funded capital expenditure plan, limited undrawn line of credit and low liquid

investment balance, the liquidity position of the company is likely to remain stretched in the near to medium term. Nevertheless, the company has availed the Covid emergency line of credit of Rs. 0.92 crore in September 2020, which would provide some comfort to its liquidity position in the near term at least.

Rating sensitivities

Positive triggers – ICRA may upgrade the ratings of BIPL if the entity is able to demonstrate significant increase its scale of operation along with cash accruals from business on a sustained basis, and also strengthen its net worth base. Specific credit metrics that could lead to an upgrade of BIPL’s ratings include interest coverage of greater than 3.00 times on a sustained basis.

Negative triggers – Pressure on BIPL’s ratings may arise if there is a further decline in the net cash accruals or if the interest coverage remains below 2.50 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	The ratings are based on the standalone financial statements of the company

About the company

Incorporated in 2002, Baba Ispat (P) Ltd (BIPL) produces mild steel (MS) angles, MS channels and MS flats with an installed capacity of 60,000 metric tonnes per annum (MTPA). The company commenced its operation in November 2004. The manufacturing facility of the company is situated in Raniganj, Burdwan (West Bengal).

Key financial indicators

	FY2019 Audited	FY2020 Provisional
Operating Income (Rs. crore)	147.14	92.46
PAT (Rs. crore)	1.70	0.61
OPBDIT/OI (%)	3.29%	1.85%
PAT/OI (%)	1.15%	0.66%
Total Outside Liabilities/Tangible Net Worth (times)	1.99	1.51
Total Debt/OPBDIT (times)	2.04	4.42
Interest Coverage (times)	3.32	1.56

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding (31-03-2020)	Rating	FY2020	FY2019	FY2018
					07-Oct-2020	04-Sep-2019	-	-
1	Cash Credit	Long Term	11.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-
2	Working Capital Term Loan	Long Term	-	-	-	[ICRA]BB+ (Stable)	-	-
3	Bank Guarantee	Short Term	1.55	-	[ICRA]A4+	[ICRA]A4+	-	-
4	Untied Limits	Long term/ Short Term	2.45	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	-	-

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	11.00	[ICRA]BB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	1.55	[ICRA]A4+
NA	Untied Limits	NA	NA	NA	2.45	[ICRA]BB+ (Stable)/ [ICRA]A4+

Source: Baba Ispat (P) Ltd.

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

Analyst Contacts

Mr. K Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Mr. Sandipan Kumar Das

+91 33 7150 1190

sandipan.das@icraindia.com

Mr. Sujoy Saha

+91 33 7150 1184

sujoy.saha@icraindia.com

Mr. Nitesh Bahety

+91 33 7150 1186

nitesh.bahety@icraindia.com

Relationship Contact

Mr. 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

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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

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

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