

April 03, 2017

## Bansal Ispat Udyog

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund Based Limits- Long Term	17.15	Reaffirmed at [ICRA]BB+ (Stable)
Unallocated Limits- Long Term	3.85	Reaffirmed at [ICRA]BB+ (Stable)
Total	21.00	

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has reaffirmed its long term rating on the Rs. 17.15 crore<sup>1</sup> fund-based limits and Rs. 3.85 crore unallocated limits of Bansal Ispat Udyog (BIU)<sup>2</sup> at [ICRA]BB+ (pronounced ICRA double B plus). The outlook on the long term rating is 'Stable'.

### Rationale

The rating reaffirmation takes into account the sharp decline in the operating income due to fall in volumes as well as realizations on account of cyclical nature of the steel industry which is passing through a weak phase, and has adversely impacted the average realisation of the company in FY2016. Also, the low value added nature of products and lack of backward integration results in sustained pressure on the operating profit margins (which have continued to remain in the range of 1%-3%, translating into modest coverage indicators. The ratings are also constrained by limited pricing flexibility of the company, cyclical and intensely competitive nature of the steel industry and the vulnerability of its profitability to adverse movements in raw material prices. ICRA has also taken note of the risks inherent in partnership firms like limited ability to raise equity capital, risk of dissolution, etc. Additionally, ICRA takes into account the benefits the firm derives from operating as a franchisee of Kamdhenu Ispat Limited, an established thermo mechanically treated (TMT) bars manufacturer, as it enhances the marketability of the firm's products. ICRA's ratings positively takes into account BIU's long track record of the promoters in the steel industry, company's 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 material as well as finished goods. The ratings also positively factor in the healthy financial flexibility that the company enjoys on account of absence of any major long term debt repayments and low utilization of the working capital limits giving rise to moderate gearing levels.

Going forward, the performance of the alloy steel segment and ability of the company to maintain its revenue growth and margins amidst competitive pressures, and exchange rate volatility will be the key rating sensitivities.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit Strengths

- Significant experience of the management and established operational track record of the group in the steel sector
- Healthy scale of operations with FY2016 group operating income at Rs. 567.50 crore and further achieved ~Rs. 517.00 crore during 11MFY2017 and expects to record ~Rs. 580 crore during the complete year
- Modest capacity utilization level within all the group companies and introduction of new high value added products has led to diversification of revenues
- Expected improvement in future profit margins owing to addition of high value added alloy billets in the existing wide product mix (TMT bars, channels, girders, rounds, flats, squares, etc)
- Moderate gearing levels of 1.16 times as on March 31, 2016 with total debt majorly comprising of only the working capital borrowings and the interest bearing unsecured loans from promoters with no major fixed debt repayment obligation
- Steady ramp up of production volumes in case of BIU after the commencement of operations in 2011. Also BIU operates as a franchise of established steel player Kamdhenu Ispat Limited and sells its TMT bars under 'Kamdhenu' brand, which provides a ready market for the company's products
- Location advantage as the group's manufacturing facilities is located in Mandi Gobindgarh (Punjab), which is one of the major steel markets in the country. This ensures a ready market for the finished products

### Credit Weaknesses

- Sharp decline in group's revenues in FY2016 due to decline in both, realisations and sales volumes as a result of ongoing slow down in the steel industry
- Non receipt of interest on advances pressurizing the net margin
- Exposed to the cyclicity inherent to the steel industry and adverse movements in foreign exchange rates owing to partial hedging mechanism
- Highly competitive and fragmented nature of the industry limits the pricing flexibility of the industry participants

### Sensitivities

- Lower-than-anticipated production level and rising input costs, which might impact its profitability
- Sustainable rise in realizations
- Significant debt funded capital expenditure

### Description of key rating drivers highlighted above:

BIU has its production facilities for manufacturing of alloy and steel billets at Mandi Gobindgarh, Punjab. It procures a major portion of its sponge iron and ingots/billets requirement from regional players based in the local market which are located close to its plant, thus reducing the freight costs. BIU operates as a franchise of Kamdhenu Ispat Ltd (KIL), which is a well established TMT bar player, especially in northern India. KIL presently has around 50 franchise partners including BIU. This model serves a dual purpose as the franchisee units benefit by availing Kamdhenu brand premium and strong marketing network, while KIL benefits from the royalty income that it gets from these franchisees for using its brand name as well as increased brand presence. The overall capacity utilisation of the rolling mills has



remained modest despite ongoing weakness in the consuming sector. The structural manufacturing business is characterised by intense competition across the value chain due to low product differentiation, and consequent high fragmentation and low entry barriers, which limits the pricing flexibility of the participants, including BIU. The profitability margins of the company have remain subdued as the rolling of billets/billets into TMT bars which low value addition. The working capital requirements of the company are met by cash credit requirements, unsecured loans infused by the promoters and internal accruals.

#### **Analytical approach:**

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, rated at [ICRA]BBB-/stable and [ICRA]A3), Bansal Iron & Steel Rolling Mills (BISRM, rated at [ICRA]BB+/stable) and Bansal Ispat Udyog, because of the common management and similar line of business.

#### **Links to applicable Criteria**

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

ICRA Rating Methodology: Indian Steel Companies

<http://www.icra.in/Files/Articles/Steel,%20Rating%20Methodology%20Oct%202012.pdf>

#### **About the Company:**

BIU is a partnership firm engaged in the rolling of steel ingots into TMT bars and other rolled products used for structural purposes and sells these under the brand name 'Kamdhenu Ispat Limited'. The firm was promoted by members of the Bansal family in 2010 and its manufacturing facility is located in Mandi Gobindgarh, Punjab, with an installed capacity of 96,000 metric tonnes per annum.

BIU earned a net profit of Rs. 3.63 crore on an operating income of Rs. 211.59 crore in FY2016 as compared to a net profit of Rs. 2.47 crore on an operating income of Rs. 246.32 crore in the previous year. In 11MFY2017 BIU reported an operating income of Rs. 169.72 crore on which it earned a net profit of Rs. 2.09 crore.

**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	Rated amount (Rs. crore)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2016	Month- year & Rating in FY2014
				April 2017	December 2015	May 2015	March 2014
1	Cash Credit	Long Term	15.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	Term Loan	Long Term	2.15	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
3	Unallocated Limits	Long Term	3.85	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)

**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**  
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. crore)</b>	<b>Current Rating and Outlook</b>
Cash Credit	-	-	-	9.00	[ICRA]BB+ (Stable)
Term Loan	21/09/2010	11.40%	05/04/2016	2.60	[ICRA]BB+ (Stable)
Unallocated Limits	-	-	-	3.85	[ICRA]BB+ (Stable)

Source: Company's (BIU) info

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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.

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