Brand Alloys Private Limited

January 13, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	**11.50**	**CARE BB; Stable (Double B ; Outlook: Stable)**	**Assigned**
Short- term Bank Facilities	**3.50**	**CARE A4 (A Four)**	**Assigned**
Total	**15.00 (Rs. Fifteen crore only)**		

Details of instruments/facilities in Annexure-1, for classification of instruments/facilities please refer to Annexure-4.

Detailed Rationale & Key Rating Drivers

For arriving at the ratings, CARE has combined the business and financial risk profiles of Haldia Steels Private Limited (HSPL) and Brand Alloys Pvt Ltd (BAPL) (together referred as Group) as the said entities are closely held, under common management and there is cash flow fungibility.

The rating assigned to the bank facilities of Brand Alloys Private Limited (BAPL) is constrained by small scale of operation, susceptible to volatility in the prices of raw materials, low operating margin followed by cash losses during FY20 (refers to the period April 01 to March 31), moderate financial risk profile and cyclical nature of the steel industry with intense competition from the unorganized sector.

The rating however derives comfort from experienced promoters with long track record of operations, regular fund infusion by the promoters and satisfactory capacity utilization.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement the scale of operations (TOI beyond 500 cr) and the PAT margins beyond 1% on a sustained basis.
- Effective management of working capital with maximum utilization not exceeding 85%.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any un-envisaged capital expenditure deteriorating its capital structure and debt coverage indicators beyond the current levels.
- Deterioration in the financial performance resulting in cash losses in the ensuing period.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operation

The group is a relatively small player, with a net worth base of around Rs.99.32 crore as on March 31, 2020 (Prov.) and total operating income of Rs.390.48 crore during FY20 (Prov.). The small size deprives it from the benefits of economies of scale and restricts the financial flexibility of the group in times of stress.

Moderate financial performance of the group with low operating margins, followed by cash losses in FY20

The group's total operating income (TOI) witnessed a CAGR growth of ~28% during FY17-FY19 followed by a de-growth of around 6% y-o-y during FY20 to Rs.390.48 crore mainly on account of moderation in the sales volume for sponge iron coupled with dip in the avg. sales realization across the entire product range. PBILDT levels though increased from Rs.10.70 crore in FY17 to Rs.15.25 crore in FY19, the group reported operating loss of Rs.13.59 crore in FY20 (Prov.) mainly on account of increase in raw material prices coupled with inventory loss (carrying of high cost inventory from previous year/ quarter) due to downward correction in the raw materials prices. Consequently, the group has reported cash loss of Rs.20.77 crore in FY20 (Prov.). The cash loss and debt repayment obligation was made good out of fund infusion by the promoters/group companies.

The group reported a TOI of Rs.213.45 crore in 8MFY21.

Moderate capital structure with weak debt protection matrix

The capital structure of the group remained moderate with overall gearing ratio of 1.40x as on March 31, 2020 (Prov.). The same moderated from 0.65x as on March 31, 2017 due to decline in the net-worth base attributable to continuous losses over the period followed by increase in the debt levels (mainly unsecured loan from the promoter group) to fund the working

[1] *Complete definitions of the ratings assigned are available at* www.careratings.com and in *other CARE publications*

capital requirement. Total debt/GCA improved from 28.04 times in FY17 to 13.11 times in FY19 due to increase in GCA levels. However, TD/GCA moderated below unity in FY20 (Prov.) owing to cash losses.

Susceptible to volatility in prices of raw materials
The raw-material is the major cost driver, accounting for around 75% of total cost of sales in FY20 (Prov.). The company lacks backward integration for its basic raw materials like iron ore and coal and the same has to be procured from the open market. Since the raw material is the major cost driver and the prices of which are volatile in nature, the profitability of the company is therefore susceptible to fluctuation in raw-material prices.

Cyclicality in the steel industry with intense competition from the unorganized sector
The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital intensive nature of steel projects along-with the inordinate delays in the completion impact the responsiveness of supply side to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to demand supply mismatch. Furthermore, the producers of MS Billets & Steel structural related products like HSPL are essentially price-takers in the market (i.e. their fortune depends upon the construction industry/infrastructure industry), which directly expose their cash flows and profitability to the volatility of the steel/end user industry. Further the industry is also characterized by high degree of fragmentation due to the presence of numerous unorganized players. Further, low level of product differentiation in the downstream steel segment further intensifies the competition, leading to lower bargaining power vis-à-vis the customers.

Key Rating Strengths
Experienced promoters with long track record of operations
BAPL was promoted by Mr. Vikas Bansal, Mr. Satpal Bansal and Mr. Markanda Samanta. The promoters have a successful track record for more than two decades in the iron and steel industry. Further, the promoters are adequately supported by group of experienced personnel having wide experience in the iron and steel industry.

Partially integrated operation with satisfactory capacity utilization
The group is a semi-integrated player as HSPL has facilities to manufacture Sponge Iron which is in turn used in the manufacture of MS Billets thereby ensuring partial integration of operations. The capacity utilization of the plants remained satisfactory during the last three years (FY18-FY20) with MS Billets and TMT bars operating close to full capacity.

Regular fund infusion by the promoters
The promoters' have continuously supported the group by extended financial support by infusing unsecured loan as and when required. The promoters have infused Rs.1.42 crore, Rs.33.48 crore and Rs.46.18 crore in FY18, FY19 and FY20 (Prov.), respectively.

Industry Outlook
Domestic steel production and consumption is expected to remain steady going forward in H2FY21. For the whole year FY21, CARE expects crude steel production to be lower by 10-12% and consumption to be lower by 14-17%, mainly impacted by poor first half. An up-cycle in international steel prices is expected in H2FY21 due to increased steel consumption mainly by China on the back of stimulus package unveiled by the Chinese government which is keeping demand for industrial metals high. Firm international prices and pick up in domestic demand will also boost domestic steel prices. Steel prices have already exceeded pre-covid levels and are currently at a marginal premium to world export prices. Domestic steel production and consumption continued to improve in November 2020 both sequentially as well as on y-o-y basis.

Liquidity analysis- Stretched
The fund based utilization in the past 12 months ended September 2020 stood close to 100%. The working capital cycle of the Group has improved from 101 days in FY18 to 64 days in FY20 mainly on account of decline in inventory days. The group reported cash loss of Rs.20.57 crore vis-à-vis debt repayment obligation of Rs.9.67 crore in FY20. The cash loss and debt repayment obligation was made good out of fund infusion by the promoters/group entities. *The group has availed moratorium on installments and deferment of interest for a period of 6 months (Mar-Aug,2020) under RBI's COVID-19 Regulatory Package.* Further, the group has availed a Demand Loan for meeting the working capital requirements under CCECL Scheme of Rs.7.95crore (Rs.4.45cr in BAPL & Rs.3.30 in HSPL)

Analytical approach: Combined
For the purpose of arriving at the ratings, CARE has combined the business and financial risk profiles of Haldia Steels Private Limited (HSPL) and Brand Alloys Pvt Ltd (BAPL), as both the companies are into similar line of business under common

management and exhibits cash flow fungibility. Furthermore, both HSPL & BAPL has given corporate guarantee against the respective bank facilities availed by each of them.

Applicable criteria –
Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Liquidity analysis of non-financial sector
Criteria for short term instruments
Complexity Level of Rated Instruments
Rating Methodology- Manufacturing Companies
Rating Methodology- Factoring linkages in Rating
Rating Methodology- Steel sector
Rating Methodology- Combined

About the Company/Group
Incorporated in 1994, BAPL is a Kolkata based company having its manufacturing unit in Serampore, West Bengal. The company is engaged in manufacturing of TMT bars, railway components and bogies with the installed capacity of 60,000 MTPA for TMT bars and 10,000 MTPA for railways components. Further, BAPL is into an agreement with Tata Steels Limited for conversion of billets into TMT bar from last 11 years.
HSPL, incorporated in 1996 is also a Kolkata based company having its manufacturing unit in Durgapur, West Bengal. The company is engaged in manufacturing of ferroalloys, sponge iron and billets with the installed capacity of 120,000 MTPA for Sponge Iron, 60,000 MTPA for Steel Billets and 12,000 MTPA for Ferro alloys. Further, the company has captive power plant with an installed capacity of 8MW.
This apart, promoters' are engaged in the iron & steel products through other group entities, namely Ispat Damodar Private Limited, Brand Steel and Power Pvt. Ltd. & Sonic Thermal Private Limited as they are engaged in the same line of business.

Combined Brief Financials (Rs. crore)	FY19 (A)	FY20 (Prov.)
Total operating income	416.78	390.48
PBILDT	15.25	-13.59
PAT	-2.23	-31.57
Overall gearing (times)	0.84	1.40
Interest coverage (times)	1.44	NM

A: Audited; NM: Not Meaningful

Standalone Brief Financials (Rs. crore)	FY19 (A)	FY20 (Prov.)
Total operating income	44.87	63.32
PBILDT	5.87	10.60
PAT	1.68	4.59
Overall gearing (times)	0.60	0.47
Interest coverage (times)	2.33	5.69

A: Audited

Status of non-cooperation with previous CRA: India Ratings continues to place the rating of BAPL under Issuer Not Co-operating vide Press release dated Aug 09, 2019.

Any Other Information: Not Applicable

Rating History for last three years: Please refer Annexure -2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Letter of credit	-	-	-	3.50	CARE A4
Fund-based - LT-Cash Credit	-	-	-	11.50	CARE BB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-Letter of credit	ST	3.50	CARE A4	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	11.50	CARE BB; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

CC Limit	Detailed explanation
A. Financial covenants	Penal Interest at 2% + applicable rate of interest during grace period for all overdue /delays of any monies payable
	The margin applicable is 25% on stock and 25% on book debts (cover period 90 days)
B. Non- financial covenants	
Standard reporting, affirmative and negative covenants.	Furnishing of monthly stock statements and book debt statements by 2nd week of each month.
LC Limit	
A. Financial covenants	The margin applicable is 25% in the shape of un-encumbered duly discharged FDRs/CDRs (along with interest accrued thereon).
B. Non- financial covenants	
Standard reporting, affirmative and negative covenants.	LC shall not be opened in favour of group companies
	The borrower will furnish an undertaking to the effect that in respect of the transactions relating to the import LC's, they will bear exchange fluctuation risk , if any, and they will arrange for necessary forward cover , whenever called upon to do so by the bank.

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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