BMM Ispat Limited

August 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	250.00 (Reduced from 350.00)	CARE A+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	650.00 (Enhanced from 300.00)	CARE A+; Stable / CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of BMM Ispat Limited (BIL) continues to derive comfort from the experienced promoters (being a part of Sajjan Jindal led JSW group, as JSW Projects Limited acquired majority stake during FY21 and has taken over the management control) with long track record of operations in the iron and steel industry. The company also derives benefits in terms of raw material procurement done at the group level, strong distribution network and close proximity to iron-ore mines, the plant being located in the Vijayanagar district of Karnataka.

As informed by the company management, the rating reaffirmation further takes into consideration, the transition of the company from being a semi-integrated steel producer to a fully integrated steel producer, with the lighting up of the blast furnace (BF) operations in the last week of July 2024.

Earlier the company only had an Induction furnace of 1 lakh tonne capacity and the company had been majorly selling iron ore pellets, sponge iron and very few quantities of billets. Post being acquired by Sajjan Jindal Group, the company undertook capex to the tune of ₹1,200 crores in the last two years for setting up blast furnace (BF) of 0.88 MnTPA capacity. With the operationalization of the BF operations, other allied manufacturing activities such as steel melting shop (SMS), oxygen plant and the merchant bar mill are also now in ready to operate condition. According to the management, the entire facility will be completely operational by the end of September 2024.

In terms of revenue and profitability, BIL reported moderation in the operating performance during FY24 (FY refers to the period April 01 to March 31). FY24 was a year of transition for the company, driven by significant capex initiatives and integration of upcoming projects with existing facilities. This apart, unavailability of competitively priced iron ore also, constrained the production volumes for the company. Despite these challenges, profitability margins improved, benefiting from higher sales realizations in the pellet segment and reduced input costs for various coal types. Going ahead, with the operationalization of the BF and allied facilities, CARE Ratings expects improvement in the share of sales mix for finished steel products as well as betterment of sales volumes for the company.

Despite of the recent capex spend, the ratings also factor in the comfortable capital structure and debt coverage indicators, (since majority of the ₹ 1200 crores capex activity was funded through internal accruals) of the company.

Capital structure continues to remain comfortable with overall gearing at 0.17x as on March 31, 2024 (0.18x as on March 31, 2023). The term loan is now reduced to ₹249 crores outstanding as on March 31, 2024, with the company having paid around ₹100 crores each in FY23 and FY24. Scheduled term loan repayment would be 100 crores each in FY25 and FY26 and ₹50 crores in FY27. From FY25 till FY27, higher utilisation of working capital limits is envisaged, post operationalisation of Blast furnace, however, that would be accompanied by improved scale of operations and higher operating cashflows.

The ratings are, however, tempered by susceptibility of profit margins to volatility in the raw material prices and presence in the inherently cyclical steel industry.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Improvement in the scale of operations along with PBILDT (profit before interest, lease rentals, depreciation, and taxation) margin sustaining above 12.00%.
- Timely execution and commissioning of capex plan (setting up of blast furnace), leading to improvement in the operational and financial performance.

Negative factors:

- Deterioration in the scale of operations along with PBILDT margin below 8.00% on a sustained basis.
- Net debt to PBILDT of more than 2.50x on a sustained basis.
- Any weakening in the credit profile/linkages with the Sajjan Jindal led JSW Group.

Analytical approach: Standalone approach factoring linkages with the Sajjan Jindal led JSW group.
JSW Projects Limited (part of Sajjan Jindal group) holds 58.47% stake in BMM Ispat Limited (BIL). CARE Ratings has discontinued parent notch-up as the same is not providing any further credit enhancement to the standalone rating of BMM Ispat Limited.

Outlook: Stable
The stable outlook considers the likely improvement in operations of the company, with favourable demand scenario in the domestic market, along with the ramping-up of the additional capacity, which will enable it to sustain a healthy business risk profile over the medium to long term.

Detailed description of the key rating drivers:

Key strengths

Reputed promoter group and experienced management: In FY21, JPL acquired 58.47% stake in BIL and also took management control to look after the day-to-day operations of the company. JPL forms part of the JSW group, headed by Sajjan Jindal, the group has significant presence across various sectors, such as steel, energy, infrastructure, cement, paints, sports, realty and venture capital. JSW Steel Limited is one of the leading steel producers with a steelmaking capacity of 29.7 MnTPA in India and USA (including capacities under joint control). In India, its integrated steel manufacturing units are located in Vijayanagar Works, Karnataka (12.5 MnTPA), Dolvi Work, Maharashtra (10 MnTPA), Salem Works, Tamil Nadu (1 MnTPA) and Bhushan Power and Steel Limited's plant in Jharsuguda, Odisha (3.5 MnTPA) to produce a wide range of flat and long steel products. There is a 1.5-MnTPA capacity steel plant in Ohio, USA. Furthermore, through its wholly-owned subsidiary (JSW Steel Coated Products Ltd), the company is one of the leading producers of value-added downstream steel products in India specialising in galvanised sheets, galvalume products and high-end colour-coated sheets. The earlier promoters of BIL, Dinesh Kumar Singhi and his family, continue to hold 41.53% stake in the company.

Completely integrated plant and proximity to iron-ore mines in Karnataka: The plant is located in Vijayanagar, Karnataka and includes beneficiation, pelletisation, sponge iron, induction furnace, rolling mill, and captive power generation. Operationalization of its 0.88 MnTpa capacity Blast Furnace, the Steel Melting Shop (SMS) shop, Merchant bar bill (MBM) and the oxygen plant will make it a completely integrated facility. The company does not own iron-ore mines, however, the manufacturing facilities are located in Bellary – Hospet iron-ore belt, which provides easy access to the key raw material. The company has setup coal-based sponge-iron plant, which ensures continuous availability of key input for steel making. Furthermore, the company has a captive power plant, which is capable of meeting the power requirement of the plant.

Access to the JSW group's supplier network and strong marketing and distribution network: The raw material for the company is procured at the JSW group level, enabling the company to avail benefits of better rates of raw material (compared to market rates) due to bulk procurement and established supplier network of the JSW Group, which reduces the cost of production. Prior to the acquisition, the company sourced its iron ore requirement from local mines in Karnataka and coal from local traders or imported from overseas markets.
Furthermore, the JSW group has strong marketing and distribution network across India and overseas markets. The company derives strengths from the JSW group's strong track record in the steel industry through the flagship company of the group – JSW Steel Limited (JSWSL). The company has facilities in Bellary, which is located close to JSWSL's Vijayanagar plant. JSWSL also has overseas marketing network, which is spread in about 100 countries across five continents.

Moderate scale of operations and profitability: The company derives income from the sale of pellets, sponge iron, TMT bars and billets. The company has the opportunity to sell the product at various stages or use as raw material for further processing depending on the market conditions. In terms of financial and operational performance, FY24 was the year of transition for the company, since majority of the capex activity and the alignment with the existing plant was taking place. This has impacted the operations of the company during FY24 as well as Q1FY25 period. Earlier unavailability of major raw material iron ore at competitive prices, especially in the Karnataka belt had impacted the production volumes of the company. However, the same has now been regularised. BIL achieved TOI of ₹2,879 crore and PBILDT of ₹238 crore in FY24. Profitability margins showed an improvement due to better sales realization in Pellet segment and a decline in input cost of various kinds of coal. Power cost decreased to 1.46% of sales in FY24 from 1.85% in FY23. With the commissioning of blast furnace in H2FY25, the scale of operations and profitability is expected to grow with value-added steel products manufactured by the company.

Comfortable capital structure: The capital structure of the company is strong with overall gearing at 0.17x as on March 31, 2024 (0.18x as on March 31, 2023), interest coverage ratio of 6.48x for FY24 and total debt to profit before interest, lease rentals, depreciation, and taxation (TD/PBILDT) of 2.10x as on March 31, 2024.

During FY22 & FY23, the company had partly repaid/refinanced ₹711 crores of NCD's using a ₹500 crore term loan and the rest through its own funds. The term loan is now reduced to ₹249 crores outstanding as on March 31, 2024, with the company paying out around ₹100 crores each in FY23 and FY24. The company also paid back ICD's amounting to ₹50 crores from JPL.

In FY21, JPL infused ₹550 crore in the form of equity and compulsorily convertible debentures (treated as quasi-equity by CARE Ratings Limited [CARE Ratings]) and ICD. Furthermore, the company issued NCDs amounting to ₹725 crore to an investor. The proceeds from funds infusion by JPL and other investors were utilised for one-time settlement of portion of outstanding loans. The lenders wrote off loans to the tune of ₹2,542 crore post one-time settlement. This loan waiver was treated as loan write-back and was accounted through profit and loss statement as an exceptional item during FY21.

The company had undertaken capex to the tune of ₹1,200.00 crores, which has neared completion and has been funded majorly from internal accruals/available cash balance. Thus, the capital structure is likely to remain at comfortable levels going forward as well.

Key weaknesses

Commodity and foreign exchange risk: The changing prices of coal and iron ore are generally reflected through adjustments in steel prices, which help in managing long-term price trends. The company primarily purchases its raw materials requirement from the domestic market. Thus, the company is exposed to the fluctuations in prices of raw materials like iron ore, coal, ferro alloys, scrap and others. The company procures key raw materials from open market as the steel prices and the prices of raw materials generally move in the same direction. However, the company is exposed to the commodity prices risk on account of not using commodity hedging to manage volatility in the commodity prices. Furthermore, the procurement of coal takes place from overseas market, which exposes the company to foreign exchange risk to the extent of the exposure.

In FY24, one of the factors behind the revenue decline was non-availability of competitively priced iron ore in Karnataka and its lower supply, which led to significant drop in the production volume across all segments

Presence in inherently cyclical steel industry: 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 delays in the completion hinders 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 steel products are essentially price-takers and are directly exposed to the volatility of the steel industry.

Liquidity: Adequate

Cash and cash equivalent as on March 31, 2024, amounted to ₹49.35 crores (₹419.46 crore as on March 31, 2023). Operationalization of the blast furnace and allied facilities is likely to significantly boost the operating cash flows of the company, which are expected to be sufficient to fund the maintenance capex and term debt repayment obligations of the company. The company enjoys significant financial flexibility on account of being part of Sajjan Jindal Group of companies. Overall Gearing ratio of the company stood at 0.17x as on March 31, 2024 (vs. 0.18x on March 31, 2023), providing sufficient headroom to meet its additional working capital requirements over the next one year.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Factoring Linkages Parent Sub JV Group
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Iron & Steel

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Ferrous Metals	Iron & Steel

Incorporated in the year 2002, BMM Ispat Limited (BIL) is involved in manufacturing of iron ore pellets, sponge iron, billets, TMT bars and generation of power. The plant is located at Danapur, Tal. Hospet, Dist. Bellary, Karnataka. During FY21, JSW Projects Limited (JPL) acquired 58.47% stake in BIL and has taken over management control and looks after the overall operations. At present, they have a Pellet plant (2.4 MnTpa capacity), Sponge-Iron plant (0.76 MnTPA capacity), Induction furnace (0.11 MnTPA capacity). From H2FY25 onwards, the Blast Furnace (0.88 MnTpa capacity), Steel Melting Shop (1 MnTpa capacity), Merchant Bar Mill (0.85 MnTPA capacity) and Oxygen plant shall be operational too.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	3,645	2,879	936
PBILDT	280	238	NA
PAT	122	91	NA
Overall gearing (times)	0.18	0.17	NA
Interest coverage (times)	6.39	6.48	NA

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'; NA: Not available

Status of non-cooperation with previous CRA: Not applicable
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: Annexure-4
Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	30-09-2026	250.00	CARE A+; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	650.00	CARE A+; Stable / CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	250.00	CARE A+; Stable	-	1)CARE A+; Stable (07-Jul-23)	1)CARE A+; Stable (30-May-22)	1)CARE A; Stable (31-Aug-21)
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	650.00	CARE A+; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1 (07-Jul-23)	1)CARE A+; Stable / CARE A1 (30-May-22)	1)CARE A; Stable / CARE A2+ (31-Aug-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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