Meenakshi Bright Steel Bars Private Limited

December 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	60.00 (Enhanced from 25.00)	CARE BBB-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

To arrive at the ratings assigned to bank facilities of Meenakshi Bright Steel Bars Private Limited (MBPL), CARE Ratings Limited (CARE Ratings) has combined the financial and business profile of MBPL, Bhuwalka and Sons Private limited (BSPL) and Bhuwalka Sales Corporation (BSC) as the entities are promoted by similar promoters present in the value chain of TMT manufacturing and sales, resulting in high managerial, operational and financial linkages. Reaffirmation in the rating of MBPL's bank facilities considers sustainable improvement in the company's scale of operations as envisaged supported by healthy demand from real estate and infrastructure companies. While the company's capital structure is at moderate levels, CARE Ratings notes large portion of debt is in the form of unsecured loans from directors and related parties. Moderation in capital structure in FY24 was also considering negative cashflow from operations which was funded out of working capital borrowings. The company's liquidity position is adequate and continues to maintain satisfactory interest cover. CARE Ratings anticipates healthy growth in sales volume for the group in FY25 backed by healthy demand from construction and real estate customers which is anticipated to improve the company's profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins and debt coverage indicators.

The rating also continues to derive strength from promoters established presence in the steel industry and adequate and timely support from the promoters inform of unsecured loans to support growing scale of operations. However, these rating strengths are partially offset by thin profitability margins and working capital intensive operations. The company's cashflows from operations are consistently negative resulting in increasing borrowing levels. The group's presence in highly fragmented and competitive steel industry and the revenue being highly exposed to volatility in raw materials prices also constrains the rating.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Maintaining current scale of operations with return on capital employed (ROCE) above 15%, interest coverage ratio (ICR) over 4x and total outside liability/total net worth (TOL/TNW) below 2.50x.

Negative factors

- Sales lower than ₹500 crore or ICR 3.00x.

Analytical approach: Combined approach

CARE Ratings has taken a combined view of Bhuwalka & Sons Private Limited, Meenakshi Bright Steel Bars Private Limited and Bhuwalka Sales Corporation due to the significant operational and financial linkages between these entities.

Outlook: Stable

CARE Ratings believes MBPL will continue to sustain its scale of operation aided by healthy demand from construction and real estate customers.

Detailed description of key rating drivers:

Key strengths

Sustainable improvement in operating performance

The company's scale of operations increased from ₹1064 crore in FY23 to ₹1142 crore in FY24 supported with improvement in volumes sold and traded supported by healthy demand from real estate customers. The group's manufacturing operations is limited to rolling mill to produce TMT bars. However, due to healthy consumer demand for group's product in H1FY25, the group has reported sales of ~₹ 856 crore. CARE Ratings expects the company to report healthy revenue growth of 25-30% in the near-to-medium term.

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

Increase in overall gearing but improved TOL/TNW
The company's overall gearing moderated and stood at 1.93x as on March 31, 2024, against 1.66x as on March 31, 2023, due to high working capital borrowings as on balance sheet date to pay off the creditors. As such, TOL/TNW improved to 3.01x as on March 24 from 3.40x as on March 23. The company's capital structure mainly consists of working capital limits, term loans and unsecured loans from promoters and group companies of which ₹10 crore of unsecured loans from its group companies has been subordinated to the bank.
The debt coverage indicators marked by interest coverage ratio stood at similar level at 3.15x in FY24 compared to 3.12x in FY23 though interest cost increased in FY24 owing to high working capital borrowings. However, increase in PBILDT in absolute terms kept ICR at similar levels as FY23. As the company has been witnessing growth in sales volume in current fiscal year, CARE Ratings expects further improvement in debt coverage indictors in FY25.

Established players in steel industry with resourceful promoters
BSPL and MBPL are the group's flagship companies engaged in manufacturing and trading TMT and other steel products and operates with the brand name Bhuwalka Premier which has an established presence in Karnataka. The group has over three decades of presence in the steel industry, which is owned and actively managed by Sajan Kumar Bhuwalka, Kishan Kumar Bhuwalka, Sushil Kumar Bhuwalka and Kamal Kumar Bhuwalka. The group has been generating rental income from the commercial properties under joint venture (JV) with Brigade Enterprises Limited. The promoters have been resourceful by bringing in those funds in the form of unsecured loans from the other group companies or from their individual sources to meet the growing scale of operations.

Key weaknesses

Thin profitability margins
PBILDT margins have been in the range of 1.5%-2.5% in the past considering very low value addition in manufacturing TMT bars from billets. PBILDT margin stood at a similar level at 2.06% in FY23 (PY: 2.03%) owing to trading business and considering significant rise in the cost of raw material consumed and cost of goods purchased which contribute ~93% of the company's total sales. The company focuses on high-volume low-margin business to operate plant at near full capacity utilisation levels. With increasing sales volume as reflected in sales done by group of ~ ₹856 crore in H1FY25, CARE Ratings expects improvement in margins in FY25.

Working capital operations with elongation in receivable period
The company's operating cycle stood elongated at 62 days in FY24 against 57 days in FY23 considering decreasing average creditors days against elongated collection period. The group has been using LC for purchase of raw material as rate of interest charged in LC is comparatively lower than CC. The receivable period stood elongated in the review period as the company majorly supplies to infra and real-estate companies with higher credit period of ~90-120 days. The company has established relations with these well reputed companies and do not have issues in terms of receivability. The company gets an average credit period of ~15-30 days from its creditors company but due to high receivable period they also negotiate credit period with its creditors. The average maximum utilisation of working capital limits stood ~70% of the limits.

Exposure of margins to high raw material prices
The group uses billets to manufacture TMT bars which constitutes to ~93% of the cost of sales. Products manufactured by the company have limited value addition and face high degree of competition from other industry players as the company is in manufacturing TMT bars with billets. Steel prices have been witnessing correction as the last year's average realisation is witnessing a dip due to high raw material prices against declining steel prices. Due to this, the company was not able to pass on the entire increase in the cost of RM to the customers.

Highly fragmented and competitive steel industry
The steel industry is highly fragmented and competitive due to the presence of large number of organised and unorganised players. Also, 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. Given the volatile economic environment, there has been slowdown in release of new contracts, which has resulted in sluggish growth being witnessed by the industry. The company is engaged in the production of a single product, TMT bars (though of different sizes and grades) which deprives it from benefits of product diversification.

Liquidity: Adequate

The company's liquidity position remained adequate as the company is anticipated to generate healthy cash accruals against maximum debt repayment of ~₹3.2 crore. The maximum working capital utilisation is ~70% in the 12 months ended November 2024. As the company is paying off its creditors against increasing receivables, cash flow from operation turned negative in FY24 after being positive in FY23. The company has cash and bank balance of ₹7.32 crore as on November 30, 2024.

Applicable criteria

Consolidation
Definition of Default

Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Iron & Steel
Wholesale Trading

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Metals and mining	Ferrous metals	Iron and steel

Incorporated in 1992 and was acquired by the Bhuwalka Premier Group of Companies and was renamed to its current form in 2011. Currently, MBPL is engaged in manufacturing a wide range of thermo-mechanically treated (TMT) bars and M.S. round from its facility in Hindupur, Andhra Pradesh, with an installed capacity of 1,09,500 MTPA. It functions primarily as a regional player catering the localised demand from construction companies and steel traders in Karnataka and Andhra Pradesh.

Brief Financials- Combined (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total operating income	1063.88	1141.60	330.73
PBILDT	21.64	23.56	6.8
PAT	10.67	13.17	NA
Overall gearing (times)	1.66	1.93	NA
Interest coverage (times)	3.12	3.15	NA

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	60.00	CARE BBB-; Stable

Annexure-2: Rating history for 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-Cash Credit	LT	60.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (27-Oct-23)	1)CARE BBB-; Stable (12-Sep-22)	-

LT: Long term.

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple

Annexure-5: Lender details

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

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