

Omega Bright Steel Private Limited

March 23, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	27.50	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	0.10	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	27.60 (Rs. Twenty-Seven Crore and Sixty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale and key rating drivers

The rating assigned to the bank facilities of Omega Bright Steel Private Limited (OBSPL) continue to derive strength from experienced promoters in bright bar followed by long standing relationship with reputed clientele, moderate financial risk profile marked by comfortable overall gearing and debt coverage indicators. The ratings are however constrained by susceptibility of margins due to volatility in prices of raw materials, working capital intensive nature of operations marked by elongated operating cycle, cyclicality in the steel industry with intense competition. The ratings are further constrained on account of significant exposure to wholly-owned subsidiaries and associate concerns.

Rating Sensitivities

Positive factors

- Improvement in scale of operations of group with total operating income of more than Rs.380 crore on a sustainable basis
- Improvement in PBILDT margins above 12.00% on sustained basis

Negative Factors

- Any significant increase in working capital requirement or any unforeseen debt-funded capex/ acquisition
- Considerable Increase in exposure to group companies.
- Deterioration in overall gearing above 1.50x

Detailed description of the key rating drivers

Key rating strengths

Experienced management coupled with long track record of operations: The group is promoted by Mrs. Asha Narang having experience of more than four decades in the bright bar industry and is further supported by her son Mr. Uday Narang having an experience of around two decades as a fund manager in USA and more than half a decade with OBSPL. He has worked as Hedge Fund manager in USA for almost 20 years and has recently joined the business. With his long associations with private equity investors, he has been able to generate private equity investment for the group.

Long standing relationship with reputed clientele: The group business risk profile continues to be supported by healthy and long-standing relationship developed with various reputed clients like Gabriel India Ltd., JTEKT India limited (Erstwhile Sona Koyo Steering Systems Ltd,) Munjal Showa Ltd. and Acme Auto (P) Limited primarily Tier-1 suppliers to OEM's, through the prior relationship with these companies coupled with supply of quality products while adhering international safety standards laid down by international quality assessment team. Moreover, reputed client base ensures timely realization of receivables.

Moderate financial risk profile The group has moderate financial profile characterized by comfortable overall gearing and debt coverage indicators. The overall gearing ratio of the group stood comfortable at 0.48x as on March 31, 2021 as against 0.31x, in FY20. The same remain comfortable over the projected period on account of moderate net worth base owing to accretion of profits to reserves coupled with limited debt levels. Further, owing to moderate profitability levels, the debt service coverage indicators of the group stood moderate as marked by interest coverage and total debt to GCA of 3.64x and 7.72x, respectively for FY21 as against 3.70x and 6.37x respectively for FY20 (A).

Key Rating Weakness

Susceptibility of margins to fluctuations in raw material prices: The main raw materials used by the group are iron and steel wires etc. Raw material cost is a major contributor to total operating cost, thereby making profitability sensitive to raw material prices mainly due to the reason that the major raw material is commodity in nature and witnesses frequent price fluctuations. The prices of steel are driven by international prices, apart from domestic demand supply factors and therefore remain volatile. Thus, any adverse change in the prices of the raw material may affect the profitability margins of the group.

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

Elongated Operating Cycle: The operations of the group are working capital intensive in nature as reflected by elongated operating cycle which stood at 89 days for FY21 as compared to 117 days in FY20. Omega Group is required to maintain adequate inventory of raw material for smooth production process as well as maintain inventory of finished goods to meet demand of its customers which resulted in average inventory period of 49 days for FY21 as compared to 51 days in FY20. Furthermore, the group offers a credit period of around 3-4 months to its customers owing to its presence in highly competitive industry resulting in average collection period of 142 days for FY21 as compared to 93 days in FY20. However, the group receives a credit period of 40-60 days from its suppliers which was elongated in FY21 to 102 days. The average utilization of cash credit limit stood at 85% for the last 12 months period ended February 2022.

Susceptible to cyclical nature of steel and Auto industry with intense competition: Prospects of steel industry are strongly co-related to economic cycles. Demand for steel is sensitive to trends of particular industries, viz. automotive, construction, infrastructure and consumer durables, which are the key consumers of steel products. These key user industries in turn depend on various macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates, etc. in the economies in which they sell their products. When downturns occur in these economies or sectors, steel industry may witness decline in demand. The automobile industry is cyclical in nature and automotive component suppliers' sales are directly linked to sales of auto OEMs. Furthermore, the auto-ancillary industry is competitive with the presence of a large number of players in the organized as well as unorganized sector. While the organized segment majorly caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to Tier II and Tier III suppliers.

Significant exposure to wholly-owned subsidiaries and associate concerns: The group's total exposure to its group companies by way of investments, loans and advances was equivalent to ~70% of its net worth as on March 31, 2021. Any adverse impact on the financial risk profile of OBSPL on account of exposure to the group companies would continue to be a key rating sensitivity.

Liquidity: Adequate

The group liquidity is adequate marked by sufficient level of accruals vis-à-vis its repayment obligations. The group has generated gross cash accruals of Rs. 18.30 crore in FY21 and is expected to generate envisage gross cash accruals of Rs.24.67 crore in FY22 against repayment obligation of Rs.5.16 crore in same year. However, the group has utilized working capital bank limits of around 85% in the last 12 months ending February,2022. Further, the group's liquidity ratios remained moderate as reflected by current ratio of 2.32x and quick ratio of 1.79x as on March 31, 2021. The group has moderate unencumbered cash and bank balance of Rs. 4.16 crore as on March 31, 2021.

Analytical Approach: Combined

CARE has taken a combined view of OBSPL and its subsidiaries due to common promoter group, significant operational and financial linkages.

Applicable Criteria:

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

[Short Term Instruments](#)

[Steel](#)

[Factoring Linkages Parent Sub JV Group](#)

[Policy on default recognition](#)

About the Company

OBSPL was initially incorporated by the name of Schumag Bright Steel Private Limited (SBSPL). In November 24, 1999, the name was changed to Omega Bright Steel Private Limited (OBSPL). OBSPL is currently being managed by Mrs. Asha Narang and her elder son Mr. Uday Narang. OBSPL is engaged in the manufacturing of bright steel and iron bar which is used for manufacturing of automotive components like Axle, clutch etc. The company has two manufacturing facilities based at Faridabad, Haryana with total installed capacity of around 38000 Metric Tonne Per annum (MTPA) of bright bars and wires as on June 30, 2021.

Omega Bright Steel and Components Private Limited (OBSCPL) was incorporated in April 27, 2007 and is currently being managed by Mr. Sanjeev Verma and Mr. Dhruv Verma. OBSPL hold 64.65% shareholding in OBSCPL and rest 35.35% of shareholding is with Mr. Sanjeev Verma and Mr. Dhruv Verma. The plant is situated at Chakan Industrial Area of Pune. The company is engaged in manufacturing of bright bar and automotive components with total installed capacity of 36000 Metric Tonne Per annum of bright bar as on June 30, 2021.

OBSC Perfection Private Limited (OPPL) was incorporated on March 17, 2017. OBSCPL holds 50% stake in OPPL and rest 50% of shareholding is with Leekha family. The company is currently being managed by Mr. Ashwani Leekha and Mr. Saksham Leekha. The company is engaged in manufacturing of rod with total installed capacity of around 10,000 Metric Tonne Per annum as on March 31, 2021. The plant is situated at Chakan Industrial Area of Pune.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (UA)	9MFY22*
Total operating income	147.09	147.79	259.77
PBILDT	13.38	13.53	26.62
PAT	6.40	7.20	10.53
Overall gearing (times)	0.09	0.13	NA
Interest coverage (times)	12.04	11.96	3.86

A: Audited; UA: Unaudited, NA: Not Available, *refers to the period from April 1, 2021 to December 31, 2021

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	20.00	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	0.10	CARE A3
Fund-based - LT-Term Loan		-	-	July, 2025	7.50	CARE BBB-; 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB-; Stable	1)CARE BBB-; Stable (23-Aug-21)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (11-Sep-20)	1)CARE BBB-; Stable (14-Jun-19)	-
2	Non-fund-based - ST-Bank Guarantee	ST	0.10	CARE A3	1)CARE A3 (23-Aug-21)	1)CARE A4+; ISSUER NOT COOPERATING* (11-Sep-20)	1)CARE A3 (14-Jun-19)	-
3	Fund-based/Non-fund-based-LT/ST	LT/ST*	-	-	1)Withdrawn (23-Aug-21)	1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (11-Sep-20)	1)CARE BBB-; Stable / CARE A3 (14-Jun-19)	-
4	Fund-based - LT-Term Loan	LT	7.50	CARE BBB-; Stable	1)CARE BBB-; Stable (23-Aug-21)	-	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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.

Contact us

Media Contact

Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Shivam Tandon
Contact no.: + 91-11-4533 3263
Email ID: shivam.tandon@careedge.in

Relationship Contact

Name: Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careedge.in

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