BMM ISPAT LIMITED

May 30, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	450.00 (Reduced from 500.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Long-term / Short-term bank facilities	300.00 (Enhanced from 200.00)	CARE A+; Stable / CARE A1 (Single A Plus; Outlook: Stable / A One)	Revised from CARE A; Stable / CARE A2+ (Single A; Outlook: Stable / A Two Plus)
Total facilities	**750.00 (₹ Seven hundred fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of BMM Ispat Limited (BIL) considers the improvement in the operating and financial performance of the company in FY22 (refers to the period April 1 to March 31) based on the provisional results. BIL is a manufacturer of pellets, sponge iron, TMT bars and billets. Higher realisations across the steel industry led to increase in price realisation of intermediates; furthermore, the improvement in demand from Q2FY21 continued through FY22, leading to improved performance of the company.

The ratings also consider the strong promoter group with substantial presence in the Indian steel industry (JSW Projects Limited [JPL]; rated 'CARE A+; Stable/CARE A1+', part of the JSW Group, acquired majority stake during FY21 and has taken over the management control). The company also benefits in terms of raw material procurement done at the Group level fetching better prices compared to market rates, comfortable capital structure and partially-integrated plant and proximity to iron-ore mines in the state of Karnataka.

BIL is undertaking a capex of ₹813 crore to set up a blast furnace, which will be funded through internal cash accruals and cash balance available with the company. Though the capital structure continues to remain comfortable, available liquidity is likely to reduce in FY23 and FY24 to the extent of utilisation of cash towards capex.

The ratings are, however, tempered by susceptibility of profit margins to volatility in the raw material prices, presence in the inherently cyclical steel industry and project implementation risk. Going forward, timely execution of planned capex and regular support from the JSW Group for overall operations of BIL will be critical factors from the credit perspective.

Rating Sensitivities

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

- Improvement in the scale of operations along with PBILDT margin sustaining above 15.00%.
- Timely execution and commissioning of capex plan (setting up of blast furnace), leading to improvement in the operational and financial performance.
- Any improvement in the credit profile of JPL.

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

- Deterioration in the scale of operations along with PBILDT margin below 10.00%.
- Delays in execution of capex plan and commissioning of blast furnace than envisaged.
- Net debt to PBILDT of more than 2x on a sustained basis.
- Any deterioration in the credit profile of JPL.

Detailed description of the key rating drivers

Key rating 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 Mr Sajjan Jindal, the group has significant presence across various sectors, such as steel, energy, infrastructure, cement, paints, sports and venture capital. JSW Steel Limited is one of the leading steel producers with a steelmaking capacity of 28 MnTPA in India and USA (including capacities under joint control). In India, its integrated steel manufacturing units are located in Vijayanagar Works, Karnataka (12 MnTPA), Dolvi Work, Maharashtra (10 MnTPA), Salem Works, Tamil Nadu (1 MnTPA) and Bhushan Power and Steel Limited's plant in Jharsuguda, Odisha (2.75 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, Mr Dinesh Kumar Singhi and his family, continue to hold 41.53% stake in the company.

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

Partially-integrated plant (beneficiation plant) and proximity to iron-ore mines in Karnataka: The company has a partially-integrated manufacturing facility based at a single location in Ballari, Karnataka. The company operates beneficiation, pelletisation, sponge iron, induction furnace, electric arc furnace, rolling mill and captive power generation facilities. The company does not own iron-ore mines, however, the manufacturing facilities are located in Ballari – Hospet iron-ore belt, which provides 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 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 Ballari, 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. There has been an improvement in the performance during FY22 mainly due to revival of demand and price recovery in Q2FY21, which continued in FY22.
BIL's revenue from operations increased to ₹3,790 crore in FY22 from ₹2,506 crore in FY21, registering a growth of 51% y-o-y. The increase in the sales volume and higher price realisation led to the top line growth. The profitability is likely to moderate going forward with rationalisation of prices with the imposition of export duty announced by the Government of India on May 20, 2022. However, with the commissioning of blast furnace in H2FY24, 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, 2022 (0.34x as on March 31, 2021), interest coverage ratio of 8.25x for FY22 and total debt to gross cash accruals (TD/GCA) of 0.59x as on March 31, 2022. During FY22, the company repaid the non-convertible debenture (NCD) issue of ₹725 crore through term loan of ₹500 crore and balance through own funds. The company also repaid ₹50 crore of inter-corporate deposit (ICD) received from JPL bringing down the total debt to ₹450.08 crore as on March 31, 2022 from ₹773.58 crore as on March 31, 2021.
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. Furthermore, the company has capex plan of ₹813.00 crore, which is envisaged to be funded entirely from internal accruals/available cash balance. Thus, the capital structure is likely to remain at comfortable levels going forward.

Key rating weaknesses

Capex implementation risk: The company has plans to undertake capex to the tune of ₹813.00 crore in next two years for setting up blast furnace of 0.88 MnTPA capacity. The capex shall be funded entirely through internal cash generation/cash balance available. The capex activity is likely to be completed by H1FY24. Presently, steel melting shop, bar mill, oxygen plant and other utilities are shut down and will restart upon setting up of blast furnace. Hence, timely execution of capex and commissioning of blast furnace within the envisaged timelines remains key rating monitorable.

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.

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 directly exposed to the volatility of the steel industry.

Liquidity: Adequate
In FY22, the company repaid its NCD outstanding of ₹725 crore by refinancing it from the term loan of ₹500 crore and balance from own funds. BIL has capex expenditure of ₹813 crore planned for FY23 and FY24 of which the company has spent ₹123 crore as on March 31, 2022. The projected cash accruals for FY23 and FY24 are expected to be sufficient to meet the capex funding of ₹690 crore to be spent in two years and debt repayment of ₹100 crore in each year. The company plans to avail ₹300 crore of working capital borrowings (fund-based and non-fund-based limits) in FY23 providing liquidity cushion. Apart from this, BIL has also provided ICD of ₹252 crore to the companies related to the JSW Group; these ICDs can be recalled in case of any shortfall in funding the capex. Furthermore, as on March 31, 2022, the company has ₹228 crore (includes margin money of ₹98 crore with the bank, expected to be made charge free after getting sanctioned working capital limits) of cash balance to meet shortfall, if any. Furthermore, the company also enjoys financial flexibility on account of being part of the JSW Group.

Analytical approach: Standalone
(The parent support has been factored in due to majority shareholding of JPL, common management and operational and financial linkages).

Applicable Criteria:
[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology – Notching by factoring linkages in Ratings]
[Criteria for Short Term Instruments]
[Financial Ratios – Non-Financial sector]
[Liquidity Analysis of Non-Financial Sector Entities]
[Rating Methodology – Manufacturing Companies]
[Rating Methodology – Steel]

About the Company
Incorporated in the year 2002, BMM Ispat Limited (BIL) is involved in the manufacturing of iron ore pellets, sponge iron, billets, TMT bars and generation of power. The plant is located at Danapur, Tal. Hospet, Dist. Ballari, 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.

Brief Financials (₹ crore)	FY20 (A)	FY21 (A)	FY22 (Prov.)
Total operating income	1,970	2,511	3,790
PBILDT	391	663	833
PAT	-264	2,811	473
Overall gearing (times)	-2.15	0.34	0.17
Interest coverage (times)	0.77	11.88	8.25

A: Audited; Prov.: Provisional
Note: The financials are adjusted as per CARE Standards.

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 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	September 2026	450.00	CARE A+; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	300.00	CARE A+; Stable / CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (06-Oct-20)	1)CARE D; ISSUER NOT COOPERATING* (04-Sep-19)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (06-Oct-20)	1)CARE D; ISSUER NOT COOPERATING* (04-Sep-19)
3	Non-fund-based - ST-ILC/FLC	ST	-	-	-	-	1)Withdrawn (06-Oct-20)	1)CARE D; ISSUER NOT COOPERATING* (04-Sep-19)
4	Fund-based - LT-Term Loan	LT	450.00	CARE A+; Stable	-	1)CARE A; Stable (31-Aug-21)	-	-
5	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	300.00	CARE A+; Stable / CARE A1	-	1)CARE A; Stable / CARE A2+ (31-Aug-21)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of the covenants of the rated instruments/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-Term Loan	Simple
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of the 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: Hitesh Avachat
Contact no.: 90048 60007
Email ID: hitesh.avachat@careedge.in

Relationship Contact
Name: Saikat Roy
Contact no.: +91-98209 98779
Email ID: saikat.roy@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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