

Bhagatjee Steels Private Limited

October 8, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	16.15	CARE B; Stable (Single B; Outlook: Stable)	Assigned
Short-term Bank Facilities	0.57	CARE A4 (A Four)	Assigned
Total	16.72 (Rupees Sixteen crore and Seventy Two lakh only)		

Details of facilities in Annexure-1

Detailed Rationale and key rating drivers

The ratings assigned to the bank facilities of Bhagatjee Steels Private Limited (BSPL) are constrained by small size of operations with low profitability margins, volatility in raw materials prices, working capital intensive nature of business, leveraged capital structure with moderate debt coverage indicators and intensely competitive industry with sluggish growth in end user industries and cyclical industry. The ratings, however, derive strength from the experienced promoters and long track record of operations.

Going forward, the company's ability to increase its scale of operations, improve profitability margins and manage working capital effectively shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations with low profit margins: The scale of operations of the company remained small marked by total operating income of Rs.36.46 crore (Rs.37.43 crore in FY16) with a PAT of Rs.0.45 crore (net loss of Rs.7.10 crore in FY16) in FY17, Provisional. Furthermore, the total capital employed has also remained low at Rs.22.02 crore as on March 31, 2017. However, the profit levels of the company improved due to better management of cost of operations marked by PBILDT level to Rs.4.13 crore and PAT level to 0.45 crore in FY17 provisional. Furthermore, the profit margins of the company marked by PBILDT margin of 11.32% and PAT margin of 1.22% in FY17.

Volatility in raw material prices: The company does not have backward integration for its basic raw-materials (iron ore, coal etc.) and it procures the same from open market at spot prices. Since the raw-material is the major cost driver and the prices of which are volatile in nature, the profitability of the company is susceptible to fluctuation in raw-material prices.

Working capital intensive nature of business: BSPL is into manufacturing of MS ingots and MS sections and accordingly BSPL has to maintain a large quantity of raw material inventories for smooth running of its production process and mitigate the price fluctuations risk. Accordingly the average inventory period of the company remained on around a month and half during last three years. Furthermore, the company allows credit of around three months to its customers due to its low bargaining power which also resulted into working capital intensive nature of its operations. However, it receives high credit period from its suppliers due to its long presence in the industry which mitigates its working capital intensity to a certain extent.

Leveraged capital structure with moderate debt coverage indicators: The capital structure of the company remained highly leveraged marked overall gearing ratios of 15.86x as on March 31, 2017. In FY16, the interest coverage was below unity. Moreover, the company has served its debt obligations for FY16 through cash credit account. The debt coverage indicators of the company improved and the same remained moderate marked by interest coverage of 1.44x and total debt to CGA of 15.94x in FY17.

Intensely competitive industry with sluggish growth in end user industries and cyclical industry: BSPL is engaged in the manufacturing of iron and steel products which is primarily dominated by large players and

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

characterized by high fragmentation and competition due to the presence of numerous players in India owing to relatively low entry barriers. High competitive pressure limits the pricing flexibility of the industry participants which induces pressure on profitability.

The fortunes of companies like BSPL from the iron & steel industry are heavily dependent on the automotive, engineering and infrastructure industries. Steel consumption and, in turn, production mainly depends upon the economic activities in the country. Slowdown in these sectors may lead to decline in demand of steel & alloys. Furthermore, all these industries are susceptible to economic scenarios and are cyclical in nature.

Key Rating Strengths

Experienced promoters with long track record of operations: BSPL is into manufacturing of MS ingots, angles, flats, channels, rounds, squares etc. since 2000 and thus has around two decades of track record of operations. Mr. Rakesh Kumar Agrawal has more than a decade of experience in the same line of business, looks after the day to day operations of the company supported by Mr. Rohit Kumar who also has more than a decade of experience in the same industry.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

About the Entity

BSPL was incorporated on June 14, 2000, promoted by Mr. Rakesh Kumar Agarwal and his family members. Since its inception, BSPL has been engaged in manufacturing of MS ingots, angles, flats, channels, rounds, squares etc. The manufacturing facility of the company is located at industrial area, Durgapur, West Bengal with an installed capacity of 24000metric tonnes per annum (MTPA) for structural steels and 50000 MTPA for MS ingots.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (Prov.)
Total operating income	37.43	36.46
PBILDIT	-3.11	4.13
PAT	-7.10	0.45
Overall gearing (times)	26.52	15.86
Interest coverage (times)	-1.02	1.44

A-Audited, Prov. - Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Fund-based - LT-Cash Credit	-	-	-	16.15	CARE B; Stable
Non-fund-based - ST-Letter of credit	-	-	-	0.57	CARE A4

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	16.15	CARE B; Stable	-	-	-	-
2.	Non-fund-based - ST-Letter of credit	ST	0.57	CARE A4	-	-	-	-

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