Bihar Foundry and Castings Limited

December 26, 2024

Ratings

Security / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	607.47 (enhanced from 600.76)	IVR A-; Stable (IVR Single A Minus with Stable Outlook)	IVR A-; Stable (IVR Single A Minus with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	182.53	IVR A2+ (IVR A two Plus)	IVR A2+ (IVR A two Plus)	Reaffirmed	Simple
Total	**790.00 (Rupees Seven hundred and ninety crore only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Bihar Foundry and Castings Limited (BFCL) continues to draw comfort from its long track of operations under experienced promoters, locational advantage of its plant and stable business performance marked by growth in scale of operation. The ratings also consider its satisfactory financial risk profile marked by comfortable leverage ratios and satisfactory debt protection metrics. Further, the ratings also note advance stage of the ongoing capex. However, these rating strengths are partially offset by susceptibility of profitability to volatility in the prices of raw materials and finished goods, exposure to project stabilization risk, exposure to high competition in the operating spectrum, working capital intensive nature of its operation and exposure to cyclicality in the steel industry.

The stable outlook reflects expected stable business performance of the company in the near to medium term underpinned by long-standing experience of the promoters.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis

- Sustenance of the capital structure with improvement in overall gearing ratio to below 1x
- Improvement in working capital management leading to improvement in operating cycle and liquidity

Downward Factors

- Decline in revenue and profitability leading to deterioration in gross cash accruals and debt protection metrics on a sustained basis
- Any time or cost overrun in the ongoing project or change in scope of the project impacting the liquidity
- Impairment in the capital structure with moderation in overall gearing to over 1.5x and/ or moderation in interest coverage to below 2x
- Stretch in the working capital cycle driven by pile-up of inventory or stretch in receivables affecting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

BFCL was promoted by Mr. Hari Krishna Budhia in 1971, a first-generation entrepreneur having an experience of over four decades in the steel industry. Longstanding presence of the promoters in the industry has resulted in established relationship with its customers and suppliers. The day-to-day operation of the company is managed by Mr. Hari Krishna Budhia and his son, Mr. Gaurav Budhia. They are ably supported by other highly experienced key managerial personnel of the company.

Locational advantage

BFCL's manufacturing facility is located in Ramgarh of Jharkhand, which is in close proximity to various steel plants and various producers/dealers of its main raw materials (iron ore/coal). The company has a competitive advantage due to its proximity to source of its primary raw material (i.e. iron-ore) by virtue of which the landed cost of the raw materials is relatively low.

Stable business performance marked by growth in operation

The business performance of the company remained stable in FY24 (FY refers to the period from April 1 to March 31) marked by growth in its topline and gross cash accruals. In FY24, BFCL's total operating income (TOI) increased by ~13% to Rs.1702.46 crore from Rs.1500.32 crore in FY23 mainly driven by rise in sales volume of Ferro alloys. However, despite improvement in TOI, EBITDA margin moderated to 7.00% in FY24 from 7.37% in FY23 due to increase in raw material procurement expenses. On the other hand, the PAT margin though remained satisfactory also moderated from 4.57% in FY23 to 3.69% in FY24 due to increase in finance charges attributable to elevated debt level. In H1FY25, the company has achieved a revenue of ~Rs.920 crore.

Satisfactory financial risk profile though moderated in FY24

The leverage ratios though remained comfortable, witnessed moderation marked by impairment in long term debt to equity ratio and overall gearing ratio to 0.74x and 1.35x respectively as on March 31, 2024 from 0.45x and 1.10x respectively as on March 31, 2023 due to elevated debt levels mainly availed for ongoing capex. Attributable to elevated debt level leading to higher interest outgo, the debt protection metrics of the company though continue to remain satisfactory, also moderated in FY24. The interest coverage ratio moderated to 4.11x in FY24 as against 6.22x in FY23. Furthermore, Total debt to EBITDA and Total debt to NCA also moderated to 3.27x and 4.73 years respectively as on March 31, 2024 as against 2.33x and 3.25 years respectively as on March 31, 2023.

Key Rating Weaknesses

Susceptibility of profitability to volatility in the prices of raw materials and finished goods

The cost of raw materials (coal, coke, iron ore, manganese ore, MS scrap) is the largest component of BRCL's total cost of production. It does not have any captive source of primary raw materials (i.e. iron ore, manganese ore) nor have any linkage for coal, accordingly the entire requirement for raw materials is met from the open market on spot prices. Given that these raw material prices are volatile in nature, the same exposes the company to input price fluctuation risk. Additionally, the demand for steel products to a large extent is driven by international and domestic demand supply dynamics, resulting in volatility in the prices of finished goods.

Project stabilization risk

The company has revised the scope of its ongoing capex plan to increase its sponge iron capacity to 1000 TPD from earlier 900 TPD and captive power plant capacity to 45MW from earlier 40MW. Accordingly, the envisaged cost of the project has also been revised to Rs.440 crore from earlier Rs.389 crore [proposed to be funded out of term loan of Rs.277 crore and rest through internal accruals of Rs.112 crore]. However, BFCL has funded the escalated cost through equity / internal accruals. The project execution is on advance stage and as on

September 30, 2024, BFCL has already incurred Rs.381.44 crore (~87% of total project cost) from promoters' contribution of Rs.112.35 crore and term loan of Rs.269.09 crore. The project is expected to complete by May 2025. Notwithstanding, the advance stage of project execution there exists a project stabilization risk.

Exposure to high competition and cyclicality in the steel industry

The company faces stiff competition from not only established players, but also from the unorganised sector. The steel industry is also cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downturn in the prices. Any adverse fluctuations in the prices of finished products or any downturn in the steel sector may impact BFCL adversely.

Working capital intensive nature of operation

BFCL's operations are working capital intensive in nature. The company places purchase order for consumption of raw material in bulk at a time; thus, blocking major funds in inventory. However, there has been a significant improvement in debtor's days in the last two years (owing to the company's strategy to focus more on the export markets via merchant exporters where sales is done against advances or cash and carry basis as compared to the domestic market where credit period ranges between 60-90 days). The average inventory holding period was moderate being below 90 days over the last three fiscals. The company avails a credit period of 25-40 days on an average. Change in company's strategy to focus more on the export markets via merchant exporters where sales are done against advances or cash and carry basis has shortened the cash conversion cycle to an extent. The average utilisation of working capital bank limit remained comfortable at ~62% during the last 12 months ended September 2024.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies.

Financial Ratios & Interpretation (Non-Financial Sector).

Criteria for assigning Rating outlook.

Policy on Default Recognition

Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate marked by expected adequate gross cash accruals in the range of Rs.119.95-281.45 crore which is likely to be to be sufficient to meet its minimal debt obligations ranging from Rs.14.89 crore-Rs.45.38 crore during FY25-FY27. The company has generated gross cash accruals of Rs.82.41 crore in FY24. However, in view of completion of capex higher cash generation is expected in the near term. Moreover, marked by its satisfactory capital structure with an overall gearing at 1.35x as on March 31,2024 the company is having a satisfactory gearing headroom. The current ratio also stood adequate at 1.23x as on March 31, 2024. Further, the liquidity position of the company is supported by its satisfactory average working capital utilization of ~62% for the past twelve months ending September 2024.

About the Company

Incorporated in 1971, Bihar Foundry and Castings Ltd (BFCL) was promoted by Mr. Hari Krishna Budhia. The company after incorporation remained dormant and subsequently, in 1978 it started commercial production at its manufacturing facility located at Ramgarh, Jharkhand. Presently, BFCL is engaged in the manufacturing of Sponge Iron, MS Billets and Ferro-alloys (silico-manganese and ferro-manganese). The installed capacity for billets is 150000 MTPA, sponge iron is 99000 MTPA and for ferro alloys product is 98395 MTPA. For ferro-alloys production, it has two 5MVA, two 9MVA and one 12 MVA submerged electric arc furnace. The company has a captive power plant of 8 MW.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	1500.32	1702.46
EBITDA	110.64	119.16
PAT	68.72	63.27
Total Debt	247.20	389.72
Tangible Net Worth	225.17	288.44
EBITDA Margin (%)	7.37	7.00
PAT Margin (%)	4.57	3.69
Overall Gearing Ratio (x)	1.10	1.35
Interest Coverage (x)	6.22	4.11

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Security/ Facilities	Current Ratings (Year 2024-2025)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					Oct 06, 2023	-	-
1.	Term Loans/ GECL	Long Term	293.49	IVR A-; Stable	IVR A-; Stable	-	-
2.	Cash Credit	Long Term	159.98	IVR A-; Stable	IVR A-; Stable	-	-
3.	PCFC	Long Term	154.00	IVR A-; Stable	IVR A-; Stable	-	-
4.	Bank Guarantee	Short Term	28.53	IVR A2+	IVR A2+	-	-
5.	Letter of Credit	Short Term	154.00	IVR A2+	IVR A2+	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Annexure 1: Instrument/Facility Details

Name of Facility/ Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loans/ GECL	-	-	-	Sep 2032	293.49	IVR A-; Stable
Cash Credit	-	-	-	-	159.98	IVR A-; Stable
PCFC	-	-	-	-	154.00	IVR A-; Stable
Bank Guarantee	-	-	-	-	28.53	IVR A2+
Letter of Credit	-	-	-	-	154.00	IVR A2+

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-BiharFoundry-dec24.pdf

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

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.