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Bihar Foundry and Castings Ltd

November 04, 2020

Ratings

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action
Long Term Bank Facilities -Cash Credit	53.98	IVR BB+ /Stable (IVR Double B plus with Stable Outlook)	Revised
Long Term Bank Facilities -Term Loan	55.44 (reduced from Rs.61.36 crore)	IVR BB+ /Stable (IVR Double B plus with Stable Outlook)	Revised
Short Term Bank Facilities	24.55 (including proposed limits of Rs. 17.00 crore)	IVR A4+ (IVR A Four Plus)	Revised
Total	133.97		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the aforesaid ratings assigned to the bank facilities of Bihar Foundry and Castings Ltd (BFCL) considers sharp improvement in its scale of operations and profitability leading to improvement in its gross cash accruals and debt protection metrics. Further, the ratings also continue to derive comfort from its experienced promoters and locational advantage. However, these rating strengths are continues to remain partially offset by volatility in the prices of raw materials and finished goods, thin profit margins, high competition, cyclicity in the steel industry and working capital intensive nature of operations.

Rating Sensitivities

Upward Factors:

- Significant improvement in scale of operations and profitability leading to improvement in cash accruals on a sustained basis
- Significant improvement in capital structure and debt protection metrics
- Improvement in the operating cycle and liquidity

Downward Factors:

- More than expected moderation in the scale of operations and/or deterioration in profit margin impacting the liquidity and debt coverage indicators.



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- Deterioration in capital structure and debt protection metrics
- Elongation in the operating cycle impacting the liquidity

Detailed Description of Key Rating Drivers

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. Further, the promoters supported the business of BFCL by infusing funds in the form unsecured loans (Rs.9.49 crore outstanding as on March 31, 2020) and have demonstrated positive commitments since inception. 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 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 its primary raw material (i.e., iron-ore) by virtue of which the landed cost of the raw materials is relatively low.

- **Healthy growth in operation**

The company's scale of operations as reflected by its operating income increased considerably at a CAGR of ~ 34% during FY17-FY20. In FY20, BFCL's operating income increased by ~13% mainly driven by improved sales volume of billets following enhancement in billet production capacity by 50000 MT in December 2019. Its capacity utilisation also exhibited an improving trend and in FY20 capacity utilisation of sponge iron stood above 100% while for billet it was ~91%. During H1FY21, the company has achieved a revenue of ~Rs.344 crore.

- **Improvement in financial risk profile**

The financial risk profile of the company witnessed improvement in FY20 supported by increase in scale of operations along with improved profitability. The long-term debt equity



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and overall gearing ratio (considering unsecured loans from promoters/related parties aggregating to Rs. 9.49 crore as neither debt nor equity) improved from 1.07x and 1.83x as on March 31, 2019 to 0.99x and 1.69x respectively as on March 31, 2020. Apart from this, debt protection parameters as reflected by interest coverage ratio improved from 1.34x in FY19 to 1.74x in FY20. The total indebtedness of the company as reflected by the TOL/TNW stood satisfactory at 2.68x as on March 31, 2020 (3.16x as on March 31, 2019). Infomerics expects further improvement in the financial risk profile going forward.

Key Rating Weaknesses

- **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 (~60% in FY20). 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.

- **Thin profit margins albeit some improvement**

The EBITDA margin of the company remained moderate though improved by 19 bps to 4.76% in FY20 supported by increase in scale of operations and the consequent better absorption of fixed cost. The PAT margin also though improved due to decline in interest cost and tax expenses stood thin at 1.09% in FY20.

- **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



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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 almost full during the last 12 months ended September 2020.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Stretched

The liquidity position of the company is stretched, marked by its high inventory holding period and highly utilized bank limits. The average utilisation of working capital bank limit remained almost full during the last 12 months ended September 2020 indicating a low liquidity buffer.

About the Company

Incorporated in 1971, Bihar Foundry and Castings Ltd (BFCL) was promoted by Mr. Hari Krishna Budhia. The company started its commercial operations from 1978. The manufacturing facility of the company is located in Ramgarh district of Jharkhand. Presently, BFCL is engaged in the manufacturing of Sponge Iron, MS Billets and Ferro-alloys (silicomanganese and ferro-manganese). The present capacity for billets and sponge iron is 150000 MTPA and 99000 MTPA respectively. For ferro-alloys production, it has two 5MVA and two 9MVA submerged electric arc furnaces.

Financials (Standalone):

(Rs. crore)



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For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	638.47	721.37
EBITDA	29.21	34.35
PAT	1.03	7.90
Total Debt	130.17	133.72
Tangible Net worth	71.25	79.16
EBITDA Margin (%)	4.58	4.76
PAT Margin (%)	0.16	1.09
Overall Gearing Ratio (x)	1.83	1.69

*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 Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Fund Based Facilities- Cash Credit	Long Term	53.98	IVR BB+/ Stable Outlook	IVR BB-/ Stable Outlook (August 8, 2019)	-	-
2.	Long Term Fund Based Facilities- Term Loan	Long Term	55.44	IVR BB+/ Stable Outlook	IVR BB-/ Stable Outlook (August 8, 2019)	-	-
3.	Short Term Non-Fund Based Facilities- BG/LC (including proposed limits of Rs. 17.00 crore)	Long Term	24.55	IVR A4+	IVR A4 (August 8, 2019)	-	-



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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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Cash Credit	-	-	-	53.98	IVR BB+/ Stable Outlook
Long Term Fund Based Limits – Term Loan	-	-	March 2025	55.44	IVR BB+/ Stable Outlook



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Short Term Non-Fund Based Limits-BG/LC (including proposed limits of Rs. 17.00 crore)	-	-	-	24.55	IVR A4+
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