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Bravo Sponge Iron Private Limited

July 03, 2020

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Fund Based Facilities	167.29 (reduced from 174.50)	IVR BBB /Stable (IVR Triple B with Stable Outlook)	Reaffirmed
Short Term Non Fund Based Facilities	40.50	IVR A3+ (IVR A Three Plus)	Reaffirmed
Total	207.79		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Bravo Sponge Iron Private Limited (BSIPL) continues to derive comfort from its experienced promoters, strategic location of the plant, improving capacity utilization, growth in scale of operation with sequential improvement in EBITDA margin along with adequate backward and forward integration. However, these rating strengths remain constrained by project execution risks associated with ongoing sizeable capex and consequent deterioration in debt protection parameters though likely to remain comfortable, presence in highly competitive & fragmented industry and cyclicity in the Steel Industry.

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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- Any delay/lower-than-expected planned equity infusion and/or higher than expected debt funded capex leading to deterioration in the overall gearing level
- Elongation in the operating cycle impacting the liquidity

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoters**

BSIPL is a part of the Shakambari group. The promoter of the Shakambari group, Mr. Deepak Kumar Agarwal, has been in the business of iron and steel for more than 25 years and operating through various companies promoted by him. Mr. Agarwal looks after the day-to-day affairs of the company. Shakambari Ispat & Power Ltd., the flagship company of the Shakambari group is an established TMT Bar, Wire rod and Billet manufacturing company, based out of Kolkata with a turnover of ~Rs.1200 crore in FY20.

- **Strategic location of the plant**

BSIPL's manufacturing facility is located in Purulia, West Bengal, which is in close proximity to various steel plants and various producers/dealers of its main raw materials (i.e. iron ore/coal). Further, the plant is well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods. Proximity of the plant to source of raw material and end market for its sponge iron results in containment of transportation cost.

- **Improving capacity utilisation**

The capacity utilisation exhibited an improving trend over the past years and in FY20 capacity utilisation of both sponge iron and billet units stood above 100%.

- **Growth in scale of operation with sequential improvement in EBITDA margin**

BSIPL's total operating income increased by ~109% on a Y-O-Y basis in FY19 post stabilisation of billet unit operations. However, during FY20, the total operating income of the company remained flat because of lower average realisation of sponge iron and billet. The company's EBITDA margin improved from 7.59% in FY18 to 10.03% in FY20 aided by ramp up of scale of operations leading to higher absorption of fixed overheads and low power cost on the back of use of captive power plant.

- **Adequate backward and forward integration**



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In the past the company incurred capex towards backward and forward integration of its operations. The company was only selling sponge iron till FY18. Later in May 2018, BSIPL diversified its operations by way of forward integration into billet manufacturing with installed capacity of 76800 MTPA. Besides, the company also set up 10 MW captive power plant (CPP) based on waste heat recovery from the kiln exit gases. In order to backward integrate its operations further, the company is presently in the process of setting up 2.00 million TPA iron ore beneficiation plant cum 1.70 million ton per annum pellet plant. The project is expected to be fully commissioned by around April 2022. Upon completion, the new units are expected to aid the profitability of the company.

Key Rating Weaknesses

- **Deterioration in debt protection parameters, on account of capex, though likely to remain comfortable**

The overall gearing of the company deteriorated from 1.12x as on March 31, 2019 to 1.91x as on March 31, 2020 due to its ongoing debt funded capex. However, Total indebtedness of the company as reflected by TOL/ATNW stood satisfactory at 2.52x as on March 31, 2020. Further, the debt protection metrics as indicated by interest coverage ratio and Total debt/GCA stood moderate at 2.50x and 12.08 years respectively in FY20. Going forward, with the proposed equity infusion, accretion of profit to reserves and repayment of term loans, its gearing level is likely to improve.

- **Vulnerable to project execution risks associated with ongoing sizeable capex**

BSIPL is undertaking significant capex of Rs.514.12 crore with a debt equity ratio of 1.83:1. It is in the process of setting up 2.00 million TPA iron ore beneficiation plant cum 1.70 million ton per annum (2 X 0.85 MTPA) pellet plant at its existing plant location at Mohuda, P.O. Rukni, Purulia, West Bengal. The company has tied up for the project debt of Rs.332 crore with an elongated door to door tenor of 15 years including the moratorium period of three years. With 12 months moratorium from COD i.e. April 2022, the repayment of loan will start from April 2023, thus providing adequate headroom to meet debt service requirements in the near to medium term (FY21-FY23). The project being large, exposes the company to project execution risks. Nevertheless, the promoter's experience and track record of executing similar projects in the past mitigate such risks to an extent. As on April 30, 2020



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capex of ~ Rs.125.00 Crore has been incurred funded by unsecured loan (~Rs.100 crore) and suppliers credit (~Rs.25 crore).

- **Highly competitive & fragmented nature of industry**

The spectrum of the steel industry in which the company operates is highly fragmented and competitive due to presence of numerous players in India owing to relatively low entry barriers. Hence, the players in the industry do not have pricing power and are exposed to the prices fixed by the industry giants.

- **Cyclicality in Steel Industry**

The steel industry is highly cyclical. Steel prices fluctuate based on macro-economic factors, including, amongst others, consumer confidence, employment rates, interest rates and inflation rates, general levels of infrastructure activities in the region of sale, etc. Adverse volatility in steel prices will have an adverse effect on company's performance in view of BSIPL's direct linkage to the fortunes of Steel industry.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity of the company is expected to remain adequate in the near to medium term marked by sufficient accruals vis-à-vis its debt repayment obligations. The average working capital limit utilisation also remained moderate at ~84% during the past twelve months ended March 31, 2020 indicating moderate liquidity buffer. Currently, the company is undertaking significant capex and tied-up for the project debt of Rs.332 crore at favourable terms. With 12 months' moratorium from COD i.e. April 2022, the repayment of the project loans will start from April 2023, thus providing adequate headroom to meet debt service requirements in the near to medium term (FY21-FY23).



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About the Company

Bravo Sponge Iron Private Limited (BSIPL) (formerly, Bhalotia Bravo Sponge Iron Pvt Ltd), incorporated in 1997, manufactures sponge iron and billet. The company was taken over by the Bhalotia group in 2002. Initially, the company had two kilns (combined capacity of 60,000 tonne per annum). In June 2015, the unit was shut down by the Bhalotia group and was taken over by Mr Deepak Agarwal (promoter of Shakambari Ispat & Power Limited) at a consideration of Rs.25 crore (on distress sale basis).

Currently, BSIPL is engaged in manufacturing of sponge iron with installed capacity of 1,20,000 MTPA (of which 30,000 MTPA was added in June 2017) and billet with installed capacity of 76,800 MTPA at its plant located at Rukni, Purulia in West Bengal.

Shakambhari Ispat & Power Ltd. (SIPL), the major company owned by Mr. Deepak Kumar Agarwal – the promoter of BSIPL, is engaged in manufacturing and trading of iron & steel products. Mr. Agarwal has about 25 years' of experience in the steel sector.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	363.81	363.13
EBITDA	35.24	36.41
PAT	6.80	8.48
Total Debt	136.79	248.39
Tangible Net worth	121.65	130.13
EBITDA Margin (%)	9.69	10.03
PAT Margin (%)	1.87	2.33
Overall Gearing Ratio (x)	1.12	1.91

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:



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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.	Cash Credit	Long Term	69.00	IVR BBB /Stable	-	IVR BBB /Stable (March 25, 2019)	-
2	Term Loan	Long Term	98.29	IVR BBB /Stable	-	IVR BBB /Stable (March 25, 2019)	-
3.	LC	Short Term	38.00	IVR A3+	-	IVR A3+ (March 25, 2019)	-
3.a	LC/BG*	Short Term	2.00	IVR A3+	-	IVR A3+ (March 25, 2019)	-
5.	Forward Contract	Short Term	2.50	IVR A3+	-	IVR A3+ (March 25, 2019)	-

*BG is Sublimit of LC

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	-	-	-	69.00	IVR BBB /Stable
Short Term Non Fund Based Limits- Term Loan	-	-	FY27	98.29	IVR BBB /Stable
Short Term Non Fund Based Limits- LC	-	-	-	38.00	IVR A3+
Short Term Non Fund Based Limits- LC/BG	-	-	-	2.00*	IVR A3+
Short Term Non Fund Based Limits- Forward Contract	-	-	-	2.50	IVR A3+

*BG is Sublimit of LC