

Press Release

BMW Industries Limited

November 23, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.309.00 Cr.
Long Term Rating	ACUITE A-/Stable (Assigned)
Short Term Rating	ACUITE A2+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of **'ACUITE A-' (read as ACUITE A minus)** and the short term rating of **'ACUITE A2+' (read as ACUITE A two plus)** to the Rs.309.00 Cr bank facilities of BMW Industries Limited (BMWIL). The outlook is **'Stable'**.

The rating on BMWIL takes cognizance of the strong business risk profile of the company marked by management experience, established track record in the steel sector and a long term offtake agreement with Tata Steel Limited (TSL), renewed twice before. Further, the rating also draws comfort from the management's strategic decision to go slow on own manufacturing business and increasingly focus on TSL's secure conversion work, its comfortable financial risk profile and the adequate liquidity position. These strengths are however, partly offset by the working capital intensity in BMWIL's nature of operations.

About the company

Incorporated in 1999, BMW Industries Limited is a West Bengal based company engaged in processing of continuous galvanized lines on behalf of Tata Steel Limited (TSL) for around three decades. The company converts all the Hot Rolled (HR) materials supplied by Tata Steel limited into Galvanised Corrugated (GC) sheets which are sold under their flagship brand 'TATA Shaktee'. The company is the largest conversion agent supplying galvanized sheets on such a large scale to TSL. The company is also engaged in manufacturing of mild steel, and long and flat products such as tubular poles and structures. It has five manufacturing facilities, of which two are in West Bengal and three in Jamshedpur, Jharkhand. The units in West Bengal are dedicated for manufacturing of mild steel, long and flat products. The units in Jamshedpur are dedicated for conversion on behalf of TSL. The company is promoted by Mr. Ram Gopal Bansal and his family.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of BMWIL to arrive at the rating.

Key Rating Drivers

Strengths

- **Promoter's extensive industry experience**

BMWIL has a long track record of around four decades in the steel industry. The company is promoted by Mr. Ram Gopal Bansal and his family. Currently, his two sons, Mr. Harsh Kumar Bansal and Mr. Vivek Kumar Bansal look after the day-to-day operations of the company. The promoter, Mr. Ram Gopal Bansal had initially started in 1981 as Bansal Mechanical Works Private Limited, and the constitution was changed to a closely held company in 1984. Subsequently, the company's name was changed to BMW Industries Limited in 1999. The company got listed on BSE in FY 2019.

The company is ably supported by a strong and experienced line of mid-level managers. Acuite believes that the vast experience of the promoter and the long track record has enabled the company to build strong relationship with its major client, TSL, resulting in continuity of BMWIL's operations with Tata in the long run, thus, creating an indirect entry barrier.

- **Renewed agreement with Tata Steel Limited and strategically important entity**

The company has a long association of over three decades with Tata Steel Limited (TSL) for conversion of Galvanised Corrugated (GC) sheets through continuous galvanizing line. The process involves protective zinc coating to steel or iron, to prevent rusting. The company is the sole conversion agent of TSL for the roofing division. In 2014, the company entered into a take-or-pay agreement with TSL, which was valid till FY21, for conversion of hot-rolled coil into Galvanised Plain or Corrugated (GP/GC) sheets by paying a pre-determined amount. The company further renewed its volume and price agreement with TSL in Q4FY21, to buy 80 percent of the unit's total capacity of 200,000 MTPA until FY24, without the take-or-pay agreement.

The Gamharia, Jamshedpur plant has been strategically set up to serve TSL's demand of GP/GC sheets with a capital investment of around Rs.400 crore. Proximity of BMW's plant to TSL's manufacturing location ensures lower logistics costs for the latter. Thus, Acuite believes that the strategic importance to TSL will continue to benefit BMW in the long run which ensures adequate revenue visibility and sustenance of their strong business risk profile.

- **Change in revenue mix and improved profitability margins**

The company's management has increased its focus on the conversion/processing business offering higher and stable margins than the manufacturing segment. Though the revenues have declined, BMW still operates at a healthy scale with turnover of around Rs.360.60 crore in FY21 as against Rs.601.84 crore in FY20. The decline in revenues is on account of decrease in the sale of own manufactured products. Revenues from conversion works contributed to around 92 per cent of its total revenues in FY21. Further, the company has achieved revenues of Rs.97.00 crore in Q1FY22.

Despite deterioration in revenues, the profitability margins have improved during the last three years. The company's EBITDA margins remained resilient at 26.31 per cent (adjusted for non-cash items) in FY2021 as compared to 18.16 per cent (adjusted for non-cash items) in FY2020, buoyed by increased conversion income. Thus, Acuite believes the stance of the management to focus on the bottom line of the company, reduce debt levels and ensure secured business primarily from TSL will bolster the business, going forward.

- **Comfortable financial risk profile**

The company's comfortable financial risk profile is marked by high networth, comfortable gearing and moderate debt protection metrics. The tangible net worth of the company stood at Rs.427.68 Cr as on 31st March, 2021 from Rs.544.85 Cr as on 31st March, 2020, due to one-time write off of bad debts, debtors, inventory and assets as exceptional items. Gearing of the company stood comfortable at 0.59 times as on 31st March, 2021 as compared to 0.54 times as on 31st March, 2020. The debt of Rs.254.45 Cr in FY21 comprises of short term debt of Rs.102.544 Cr, long term facilities from bank of Rs.97.97 Cr of which Rs.61.50 is Covid loan, current portion of long term debt repayment of Rs.52.86 Cr and unsecured loans of Rs.1.09 Cr. The company has made prudent efforts to deleverage its balance sheet with reduction in debt levels from Rs.371.52 Cr in FY19 to Rs.296.47 Cr in FY20 and the same has further reduced to Rs.254.45 Cr in FY21, thereby leading to savings in interest cost. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood healthy at 0.81 times as on 31st March, 2021 as against 0.75 times as on 31st March, 2020. The moderate debt protection metrics of the company is marked by Interest Coverage Ratio at 3.51 times (adjusted for non-cash items) and Debt Service coverage ratio at 1.13 times (adjusted for non-cash items) as on 31st March, 2021. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.28 times (adjusted for non-cash items) in FY21 as against 0.23 times in FY20. Acuite believes that going forward the financial risk profile of the company will improve backed by steady accruals and no major debt funded capex plans.

Weaknesses

- **Working capital intensive operations**

The working capital intensive nature of operations is marked by high Gross Current Assets (GCA) of 264 days in FY2021 as compared to 255 days in FY2020. High GCA days is on account of high inventory of 162 days in FY2021 as compared to 154 days in FY2020. The company maintains adequate stock of raw materials, mainly zinc in order to execute orders on time as there is a high lead time of zinc procurement from Hindustan Zinc Limited. The debtor days stood at 82 days in FY2021 as against 77 days in FY2020. The stretch in the debtor period is due to change in credit policy by TSL which has been extended by 45 days globally on account of the pandemic. The company has written off bad

debts, inventory and other receivables of Rs.133 Cr as one-time exercise in its books which were of slow moving nature, majorly from own manufacturing segment. Going forward, Acuite believes that the working capital management of the company will remain intensive over the medium term as evident from the high inventory levels historically.

Rating Sensitivity

- Growth in scale of operations while sustaining operating profitability
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile
- Stretch in debtor period, leading to stretched liquidity

Material Covenants

None

Liquidity Position: Adequate

The company's liquidity position is adequate marked by net cash accruals of Rs.71.64 Cr (adjusted for non-cash items) in FY2021 against long term debt obligations of Rs.59.73 crore over the same period. The current ratio stood moderate at 1.31 times as on 31st March, 2021 as compared to 1.47 times as on 31st March, 2020. The fund based limit remained utilised at 81 per cent over seven months ended Jul, 2021. The cash and bank balances of the company stood at Rs.0.09 Cr in FY2021 as compared to Rs.2.53 Cr in FY2020. The company availed a Covid loan of Rs.61.50 Cr and a six month loan moratorium. The company's operations are working capital intensive as reflected by high Gross Current Assets (GCA) of 264 days in FY2021 as compared to 255 days in FY2020. Acuite believes that going forward, the liquidity position of the company will improve due to steady accruals.

Outlook: Stable

Acuite believes the company's outlook will remain stable over the medium term on account of its experienced management, long term agreement with TSL and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while sustaining its operating margins or improvement in the working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of further decline in revenues or stretch in working capital cycle leading to deterioration in the liquidity position of the company.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	360.60	601.84
PAT	Rs. Cr.	(117.65)	23.97
PAT Margin	(%)	(32.63)	3.98
Total Debt/Tangible Net Worth	Times	0.59	0.54
PBDIT/Interest	Times	(2.85)	2.71

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	80.00	ACUITE A-/Stable (Assigned)
State Bank of India	WCDL-CCECL	Not Applicable	Not Applicable	Not Applicable	32.30	ACUITE A-/Stable (Assigned)
State Bank of India	WCDL-GECL	Not Applicable	Not Applicable	Not Applicable	7.95	ACUITE A-/Stable (Assigned)
Punjab National Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A-/Stable (Assigned)
Punjab National Bank	WCDL-CCECL	Not Applicable	Not Applicable	Not Applicable	7.96	ACUITE A-/Stable (Assigned)
Punjab National Bank	WCDL-GECL	Not Applicable	Not Applicable	Not Applicable	3.43	ACUITE A-/Stable (Assigned)
Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	33.00	ACUITE A-/Stable (Assigned)
Bank of India	WCDL-CCECL	Not Applicable	Not Applicable	Not Applicable	5.96	ACUITE A-/Stable (Assigned)
Bank of India	WCDL-GECL	Not Applicable	Not Applicable	Not Applicable	2.13	ACUITE A-/Stable (Assigned)
Bank of Baroda	Term Loan	Not Available	Not Available	Not Available	3.11	ACUITE A-/Stable (Assigned)
Bank of Baroda	WCDL-CCECL	Not Applicable	Not Applicable	Not Applicable	1.77	ACUITE A-/Stable (Assigned)
IndusInd Bank	Term Loan	Not Available	Not Available	Not Available	45.00	ACUITE A-/Stable (Assigned)
Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.49	ACUITE A-/Stable (Assigned)
State Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	39.80	ACUITE A2+ (Assigned)
Punjab National Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	22.68	ACUITE A2+ (Assigned)
Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	11.42	ACUITE A2+ (Assigned)

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About Acuité Ratings & Research:

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