

Press Release

Bala Industries

May 17, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.9.50 Cr.
Long Term Rating	SMERA B / Outlook:Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA B**' (**read as SMERA B**) and short term rating of '**SMERA A4**' (**read as SMERA A4**) on the Rs.9.50 crore bank facilities of Bala Industries. The outlook is '**Stable**'. Established in 1997 by Mr. S A Arutchelvan, Bala Industries (Bala) is a Chennai (Tamil Nadu) based partnership firm engaged in the manufacture of power and distribution transformers. The entity mainly supplies transformers to Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) and also supplies to wind mill segment. The firm is promoted by Mr. S A Arutchelvan and Mrs. A Anuradha as partners.

About the Group:

Bala Industries has an associate concern namely Paramount Industries, which is also engaged in manufacture of power and distribution transformers.

Established in 1997, Chennai (Tamil Nadu) based Paramount Industries is engaged in the manufacture of power and distribution transformers. The group mainly supplies transformers to Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO). The group is promoted by Mr. S A Arutchelvan.

Analytical approach:

SMERA has considered the consolidated business and financial risk profiles of Bala Industries and Paramount Industries (hereinafter referred to as the Bala group). This is because both entities have a common management and have significant operational linkages.

Key rating drivers

Strengths

Experienced management and long track record of operations: The Partner, Mr. S A Arutchelvan has almost two decades of experience in the transformer manufacturing business.

Established relationship with TANGEDCO and RRB Energy Ltd: The group benefits from over two decades of established relationship with TANGEDCO for supply of power distribution transformers. It supplies the transformers in the category of 100 KVA and 10,000 KVA. Though the supplies to TANGDECO are on tender basis, the firm is able to get repeat orders due to their quality and timely supplies. Further, the group is also catering transformers for the wind mill segment, primarily supplying to RRB Energy Ltd. The group has an order book position of Rs.16.94 crore as on January, 2018 providing revenue visibility over the medium term.

Weaknesses

Below-average financial risk profile: The financial risk profile of the group is marked by low net worth, moderate gearing levels and moderate debt protection metrics. Net worth stood at Rs.0.91 crore as on March 31, 2017 as compared to Rs.0.59 crore as on March 31, 2016. The gearing in the past was high at 10.56 times as on March 31, 2016 though improved to 1.61 times as on March 31, 2017 due to decrease in working capital utilization at year end. The group has short term debt of Rs.1.37 crore and unsecured loans of Rs.0.10 crore as on March 31, 2017. Coverage indicators such as Interest Coverage Ratio (ICR) increased to 2.71 times as on March 31, 2017 as compared to 2.38 times as on March 31, 2016 due to decline in interest expense. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.36 times as on March 31, 2017. SMERA believes that the financial risk profile of the group continues to be below-average considering the modest net worth and low accretions to reserves.

Working capital intensive operations: The operations are working capital intensive as reflected in high gross current assets (GCA) of 208 days as on March 31, 2017 compared to 317 days as on March 31, 2016 due to high debtor levels. Receivable days in FY2017 stood at 144 compared to 287 in FY2016. The supplies to TANGEDCO are on credit terms of up to 180 days. Further, the group also maintains an inventory of key raw materials of copper, sheet metal among others for its requirement for the next two-three months. The raw material and equipment under work-in-progress lead to inventory days of about 43 days in FY2017. High GCA weighs down the profitability in terms of interest cost, as well as price fluctuations of raw materials. Further, it resulted in full utilization of bank lines over the past 6 months through Jan, 2018. SMERA believes that the operations will continue to be working capital intensive basis the industry and client profile over the medium term.

Tender based business: The group deals mainly with government organisations which provide orders on tender basis. Going forward, the group's ability to bid for large orders and qualify for the same remains to be seen. However, the ability to cater to private companies in addition to government organisations will partially mitigate this risk.

Outlook – Stable

SMERA believes that the outlook on the group will remain 'Stable' over the medium term on account of the experience of the management. The outlook may be revised to 'Positive' if the financial risk profile of the group improves substantially while improving its revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	14.53	16.03	15.03
EBITDA	Rs. Cr.	0.72	0.77	0.82
PAT	Rs. Cr.	0.45	0.40	0.41
EBITDA Margin	(%)	4.95	4.82	5.48
PAT Margin	(%)	3.06	2.49	2.73
ROCE	(%)	16.37	18.11	112.56
Total Debt/Tangible Net Worth	Times	1.61	10.56	3.88
PBDIT/Interest	Times	2.71	2.38	2.22
Total Debt/PBDIT	Times	1.77	7.50	1.29
Gross Current Assets (Days)	Days	208	317	93

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entities In Manufacturing Sector - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Consolidation of Companies- <https://www.smera.in/criteria-consolidation.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable): Not Applicable.

Rating History (Upto last three years):

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA B/Stable (Assigned)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA B/Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA A4 (Assigned)

Contacts:

Analytical	Rating Desk
Suman Chowdhury President – SMERA Bond Ratings Tel: +91-22-6714 1107 Email: suman.chowdhury@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in
Sethu Madhav Putti Rating Analyst Tel: +91-22-6714 1128 Email: sethu.madhav@smera.in	

ABOUT SMERA

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