

Press Release

Shri Balaji Sand Manufacturing Unit

June 04, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned a long term rating of **'SMERA B+' (read as SMERA B plus)** on the Rs.10.00 crore bank facilities of Shri Balaji Sand manufacturing Unit (SBS). The outlook is **'Stable'**.

Incorporated in April, 2016 as a proprietorship firm, Shri Balaji Sand manufacturing Unit (SBS) is engaged in sand manufacturing. Based in Bagalkot (Karnataka), the firm is promoted and managed by Mrs. Laxmi Patil and operates a sand manufacturing plant with installed capacity of 7.5 lakh tonnes per annum. The operations commenced in April, 2018.

Key Rating Drivers

Strengths

- **Backwardly integrated with captive mine and promoters industry experience**

SBS has a quarry base of 33.20 acres in Bagalkot (Karnataka) which has sufficient deposits of rock and minerals- the basic raw material for manufacture of M-Sand. The captive land is expected to aid SBS's business risk profile as it would lead to easy availability of raw materials, lower transportation costs, thereby, resulting in better operating margins as compared to other players in the sand manufacturing industry. The promoter's spouse, Mr. Hanamant Gouda S Patil has been in the business of civil works contract, irrigation contract, among others for the last two decades and has established relations with government key principals and other large contractors in the Bagalkot region. SMERA believes that SBS would benefit in terms of demand risk associated with M-sand, because of its promoters' established relations with civil contractors where M-sand would be the major raw material.

Weaknesses

- **Nascent stage of operations**

The company started its commercial operations in April, 2018 and is expected to generate revenues of Rs.21.00 crore for FY2019. However, the operations are currently at nascent stage, stabilization and improvement of operations and cost efficiencies are key rating sensitivity factors over the near term.

- **Below-average financial risk profile**

The financial risk profile is marked by high gearing of above 3 times over the medium term attributed to debt-funded capital expenditure undertaken and completed by the firm. The firm has set-up a M-sand manufacturing plant with installed capacity of 7.5 lakh tonnes per annum at a project cost of Rs.11.57 crore at a debt-to-equity of 3:1. The project is funded out of term loan of Rs.8.75 crore, and balance out of promoter's capital. Further, the firm has also sanctioned working capital of Rs.1.25 crore. As the firm has started its operations in April 2018, and is capital intensive, the financial risk profile is expected to be below-average over the medium term.

- **Exposure to intense competition in the highly-fragmented sand manufacturing industry**

SBS operates in an industry marked by many unorganised players in the market and faces intense competition leading to pressure on price realisations and profitability. The intense competition will also limit the pricing flexibility of the firm, restricting any significant growth in profit margins.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of SBS to arrive at this rating.

Outlook: Stable

SMERA believes that SBS will maintain a 'Stable' outlook over the medium term from the backward integration of raw material. The outlook may be revised to 'Positive' in case of stabilisation of the operations, better-than-expected revenues and healthy cash accruals. Conversely, the outlook may be revised to 'Negative' if the firm reports lower-than-expected revenue and operating margin, or if a significant stretch in the working capital cycle weakens liquidity.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.acuite.in/criteria-default.htm>

Note on complexity levels of the rated instrument

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

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	1.25	ACUITE B+/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	8.75	ACUITE B+/Stable (Assigned)

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About Acuité Ratings & Research:

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