

Press Release

Balaji Industrial And Agricultural Castings Private Limited

August 17, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 23.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' (**read as ACUITE B**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 23.00 crore bank facilities of Balaji Industrial And Agricultural Castings Private Limited. The outlook is '**Stable**'.

Balaji Industrial and Agricultural Castings Private Limited (BIACPL) is a Hyderabad based company established as a partnership firm in the year 1978, and later converted to private limited company in the year 2013. It is engaged in implementation of water supply schemes, canal constructions, solar related projects and other civil contracts. At present, the company is operating in the States of Bihar, Andhra Pradesh and Tamil Nadu.

Key Rating Drivers

Strengths

- **Experienced management**

BIACPL started as a partnership firm by Mr. Padmanabhayya in the year 1978 as a civil contractor and later in 2013 it was converted to a Private Limited Company. The present managing director of the company Mr. Srikanth Mallela possess around a decade of experience in the industry. Currently, the company is implementing drinking water supply projects in the state of Bihar. In the past, it has executed similar projects in the State of Tamil Nadu; further, the management has forayed into supply and installation of solar water pumps during FY2016-17 and other solar projects. Acuité believes that, the diversified sector presence and geography diversification along with order book of about Rs.60 crores is expected to support in improvement of its business risk profile over the medium term

- **Comfortable financial risk profile**

Financial risk profile of the company is comfortable marked by healthy gearing (debt to Equity), moderate debt protection metrics and comfortable total outside liabilities to total net worth(TOL/TNW). Gearing is healthy at 0.92 times as on 31 March, 2018 against 0.42 times in FY2017, on account of moderate reliance on fund based limits. Its net worth is comfortable at Rs.10.44 crore as of March 31, 2018. Its TOL/TNW is comfortable at 1.98 times in FY2018 against 1.47 times in FY2017. Debt protection metrics of interest coverage ratio is average at 1.24 times in FY2018. Acuité believes that as the company is not having any significant debt-funded capex plans over the medium term, the financial risk profile is expected to be at similar levels.

Weaknesses

- **Modest scale of operation and decline in operating margins**

Revenues of the company grew by twofold from Rs.15.72 crore in FY2017 to Rs.33.23 crore in FY2018 (provisional). Around 70 percent of the revenues have come from sale of solar water pumps / power generations systems's to its associate concern 'Sai Babuji Projects Private Limited'; and remaining from water sewage solutions projects in Tamil Nadu, Andhra Pradesh and Maharashtra. Despite the growth in revenues, scale of operations remained modest at Rs.33.2 crores in FY2018. Currently, it has an unexecuted order book position of around Rs.60 crore from the Government of Bihar of EPC work of drinking water supply scheme along with operation and maintenance contract; the same is for implementation over a period of 12 months. The revenues within the industry is modest despite doubling of revenues over the past two years. Further, the profitability margins are so volatile; its

operating margins have declined to about 3.92 per cent in FY2018 (provisional) from 9.04 percent in FY2017. This is mainly on account of low value addition revenues in FY2018. Though the company is expecting margins to improve to about 8 per cent in the near future. Acuité believes that improvement of margins and timely completion of projects in new territory is a key rating sensitivity factor over the medium term.

• Working capital intensive operations

Operations of the company are working capital intensive marked by high gross current assets (GCA) of around 263 days in FY2018, though improved from 416 days in FY2017. High GCA days is on account of delayed payments from the principal debtors; its receivable days stood at around 214 days in FY2018. However, inventory days improved and stood at 35 days in FY2018 as against 175 days in FY2017. This resulted in high utilisation of its bank lines are fully utilized over the last six months through June, 2018. Acuité believes that the operations continue to be working capital intensive over the medium-term basis payments.

• Highly fragmented and competitive industry

The company operates in a high fragmented and competitive civil construction industry with large number of players executing small and mid-size projects because of low entry barriers. Further the contracts are awarded through competitive bidding or tender process leading to pressure on scalability and profitability of the company.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of BIACPL to arrive at this rating.

Outlook: Stable

Acuité believes that BIACPL will maintain a stable outlook over the medium term owing to its experienced management and comfortable order book position. The outlook may be revised to 'Positive' if company achieves substantial and sustained revenue growth, and profitability while improving working capital cycle. The outlook may be revised to 'Negative' in case of significant stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	33.23	15.72	15.55
EBITDA	Rs. Cr.	1.30	1.42	1.48
PAT	Rs. Cr.	0.17	0.07	0.11
EBITDA Margin	(%)	3.92	9.04	9.53
PAT Margin	(%)	0.50	0.47	0.71
ROCE	(%)	9.66	11.48	11.41
Total Debt/Tangible Net Worth	Times	0.92	0.42	0.44
PBDIT/Interest	Times	1.24	1.25	1.24
Total Debt/PBDIT	Times	5.19	2.30	2.57
Gross Current Assets (Days)	Days	263	416	338

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

As per the ICRA Ratings press release dated November 15, 2017, Balaji Industrial and Agricultural Castings Private Limited remained issuer non co-operating.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.60	ACUITE B / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A4
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.40	ACUITE B / Stable

Contacts

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About Acuité Ratings & Research:

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