

Press Release

Balaji Industrial And Agricultural Castings Private Limited

September 06, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs. 23.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Upgraded from ACUITE B/Stable)
Short Term Rating	ACUITE A4+ (Upgraded from ACUITE A4)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) from '**ACUITE B**' (**read as ACUITE B**) and short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) from '**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 (Balaji) was established in 1978 by Mr Padmanabhayya as a partnership firm. In 2013, it was converted into a private limited company. Balaji is engaged in construction activities for various Government Departments of State of Andhra Pradesh, Telangana, Tamil Nadu, Bihar, among others. They are mainly into construction and implementation of water supply projects, construction of canals and other civil works. It was initially engaged in installation of hand pumps, construction of roads, buildings and construction of canals among others.

Sai Babuji Projects Private Limited (Babuji) is a Telangana-based entity incorporated in the year 2011 by Mr. M. Sreekanth and his family. It is engaged in supply, installation and commissioning of solar water pumping systems under rural water supply schemes in Andhra Pradesh. It is a part of Sai group.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of the 'Balaji' and 'Babuji' on account of common management, similar line of business, intercompany transactions and corporate guarantee given by Balaji to Babuji. Hereafter, both the entities together are referred to as 'Sai group' or 'group'.

Key Rating Drivers

Strengths

• Experienced management

The group was started by Mr. Padmanabhayya in the year 1978 as a civil contractor. The present Managing Director of the group, Mr. Srikanth Mallela, possesses around a decade of experience in the industry. Currently, the company is implementing drinking water supply projects in the state of Bihar and Andhra Pradesh. 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. At current, the group has about Rs.102 crore orders, which will be executable in the next 2 years period gives adequate revenue visibility.

• Comfortable financial risk profile

The financial risk profile of the group is comfortable marked by comfortable gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and debt protection metrics though partly constrained by moderate networth. The gearing and TOL/TNW are comfortable at 0.62 times and 1.34 times as on 31 March, 2019 as against 1.50 times and 2.64 times as on 31 March, 2018. Net worth stood moderate at Rs.19.48 crore as on 31 March, 2019 (Provisional) as against Rs.13.13 crore as on 31 March 2018. Of the total debt of Rs.12.06 crore as on 31 March, 2019, unsecured loans stood at Rs.1.54 crore and short-term debt at Rs.10.52 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 2.44 times and 0.21 times in FY2019,

respectively. The group reported net cash accruals (NCA) of Rs.2.50 crore in FY2019. Cash accruals are expected in the range of Rs.4 crore – Rs.5 crore, against zero debt obligations over the medium term. Acuité believes that with moderate accruals and no major debt funded capital expenditure program, the financial risk profile continues to be at similar levels over the medium term.

Weaknesses

- **Modest scale of operations and volatile revenues and profitability**

Revenues of the group remained modest and fluctuating over the last three years through FY2019 (Provisional). The group reported operating income of Rs.43.51 crore in FY2019 (Provisional), marginal decline from Rs.44.56 crore in FY2018, which is modest in the industry. Also, its margins are so volatile that its margins have sharply dropped to 6.1 per cent in FY2018 from 11.8 per cent in FY2017, though improved to 10.8 per cent in FY2019 (provisional). As of 31 March, 2019, the group has orders of Rs.102 crore to be executable in the next 2 years period, which shows moderate revenue visibility. Ability of the group to improve its scale of operations, while maintaining the profitability margins are key rating sensitivity factors over the medium term.

- **Working capital intensive operations**

The group's operations are working capital intensive marked by high gross current asset (GCA) of 288 days for FY 2019 (Provisional) as compared to 315 days for FY 2018. This is mainly on account of stretch in debtor cycle, which stood at 151 days in FY2019 (Provisional) as against 247 days in FY2018. Inventory cycle stood comfortable at 27 days in FY2019 as against 33 days in FY2018. Further, considerable amount is also held up with the principals as retention money. The company has funded part of its working capital cycle from the support of creditors. Bank limits are fully utilized for the last six months through July 2019. Acuité believes that with the expected improvement in revenues, the operations will continue to be working capital intensive owing to large receivable cycle.

- **Highly fragmented and competitive industry**

The group 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 group.

Liquidity Position

The group's liquidity is stretched marked by moderate net cash accruals and working capital intensive operations. Group reported cash accruals of Rs.2.50 crore for FY2019. The cash accruals of the group are estimated to remain at around Rs.4 crore –Rs. 5 crore during 2020-22, against no repayment obligations over the medium term. Operations are working capital intensive as reflected in GCA at 288 days in FY2019 (315 days in FY2018) due to stretch in debtors and retention money. The bank limit remains fully utilized for the past 6 months through July 2019. The current ratio stood moderate at 1.49 times as on March 31, 2019. Unencumbered cash and bank balance stood at Rs.1.67 crore as on March 31, 2019. Acuité believes that the liquidity of group is likely to remain stretched due to delays in receivables and retention money with the customers over the medium term.

Outlook: Stable

Acuité believes that the group 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 the group achieves substantial and sustained revenue growth 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	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	43.51	44.56	16.36
EBITDA	Rs. Cr.	4.69	2.72	1.93
PAT	Rs. Cr.	2.32	0.69	0.21
EBITDA Margin	(%)	10.77	6.10	11.83
PAT Margin	(%)	5.34	1.54	1.31
ROCE	(%)	16.58	11.81	12.88
Total Debt/Tangible Net Worth	Times	0.62	1.50	0.54
PBDIT/Interest	Times	2.44	1.50	1.34
Total Debt/PBDIT	Times	2.19	6.04	2.84
Gross Current Assets (Days)	Days	288	315	522

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
17-Aug-2018	Cash Credit	Long Term	5.6	ACUITE B / Stable (Assigned)
	Letter of Credit	Short Term	3	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	9	ACUITE A4 (Assigned)
	Proposed Bank Guarantee	Short Term	3	ACUITE A4 (Assigned)
	Proposed Bank Facility	Long Term	2.4	ACUITE B / Stable (Assigned)

***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 BB- / Stable (Upgraded)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Upgraded)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A4+ (Upgraded)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Upgraded)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.40	ACUITE BB- / Stable (Upgraded)

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About Acuité Ratings & Research:

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