

Press Release

Balaji Industrial and Agricultural Castings Private Limited

December 04, 2020

Rating Downgraded & Assigned



Total Bank Facilities Rated*	Rs.23.00 Cr.
Long Term Rating	ACUITE B/Stable (Downgraded)
Short Term Rating	ACUITE A4 (Downgraded)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded and assigned the long-term rating to **'ACUITE B' (read as ACUITE single B)** from **'ACUITE BB-' (read as ACUITE double B minus)** and the short term rating to **'ACUITE A4' (read as ACUITE A four)** from **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs.23.00 Crore bank facilities of Balaji Industrial and Agricultural Castings Private Limited. The outlook is 'Stable'.

About the group

Hyderabad based 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 the 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.

The rating downgrade to the bank facilities of the group is on account of deterioration in the business risk profile marked by sharp decline revenue from Rs.45.28 Cr in FY2019 to Rs.18.39 Cr in FY2020. This resulted in lower accruals in FY2020 against nil debt obligations. The downgrade also takes into consideration the elongated working capital cycle marked by stretched debtors and high inventory days. The debtor and inventory days increased from 143 days and 63 days as on March 31, 2019 to 217 days and 235 days as on March 31, 2020.

Analytical Approach

Acuite 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. The two entities together are referred to as 'Sai Group'.

Key Rating Drivers

Strengths

- **Long track record of operations, experienced management and moderate order book position**

The group was started by Mr. Padmanabhayya in the year 1978 as a civil contractor. The group together now managed by Mr. Srikanth Mallela, who has an extensive experience of more than a decade in infrastructural construction activities. The promoters' extensive experience and long track record have helped the group in achieving orders from the government. The revenues of the group remained fluctuating over the period on account of tender based operations. The group at present has unexecuted orders of Rs.200.00 Cr as on 31st Oct 2020. Acuite believes that the group will continue to benefit from its experienced management, long track of business operations in winning bids from the government over the medium term.

- **Moderate financial risk profile**

The financial risk profile of the group remained moderate with moderate capital structure and debt protection metrics. The group's networth stood at Rs.19.40 Cr and Rs.18.11 Cr as on March 31, 2020 (Prov.) and 2019 respectively. The group's gearing stood at 0.60 times as on March 31, 2020 (Prov.) as against 0.65 times as on March 31, 2019. The debt protection metrics Interest Coverage Ratio (ICR) stood at 1.72 times for FY2020 (Prov.) as against 2.37 times for FY2019. ICR deteriorated on account of decrease in EBITDA in absolute terms coupled with decline in revenue. Debt Service Coverage Ratio (DSCR) has declined to 1.72 times as on March 31, 2020 (Prov.) as against 1.99 times as on March 31, 2019. TOL/TNW improved from 1.48 times to 1.21 times as on March 31, 2019 and 2020 (Prov.) respectively. Acuite believes that the financial risk profile of the group is expected to be moderate, owing to no significant debt-funded capex plan and expected increase in revenues over the medium term.

Weaknesses

- **Working capital intensive operations**

The operations of the group remained working capital intensive with GCA days of 559 days as on March 31, 2020 (Prov.) as against 253 days as on March 31, 2019. The increase in GCA days is mainly on account of increase in debtor days and inventory days. The inventory days stood at 235 days as on March 31, 2020 (Prov.) as against 63 days as on March 31, 2019. The debtor days stretched to 217 days as on March 31, 2020 (Prov.) as against 143 days as on March 31, 2019. The increase in receivables is on account of delay in raising of bills on account of COVID-19 impact, and delay in amount receivable from Bihar Government. Usually, balaji receives payments within a month time from the date of raising the bills. However, this is also offset by stretched creditors. The creditor days stood at 527 days as on March 31, 2020 (Prov.) as against 145 days as on March 31, 2019; which has led to negative working capital cycle days of (74) days as on March 31, 2020 (Prov.) as against 61 days as on March 31, 2019. The bank lines of the group are remained utilized at 99 percent for the last six months ended October 2020. Acuite believes that the working capital remains to be intensive based on the nature of operations over the medium term.

- **Fluctuating and modest scale of operations**

The revenues of the group stood at Rs.45.28 Cr in FY2019 and Rs.18.39 Cr in FY2020 (Provisional). The decline in revenues for FY2020 is due to the cancellation of tenders on account of change in Ministry of New & Renewable Energy (MNRE) guidelines for balaji and due to delay in site clearances and adverse climatic conditions during the period, babuji unable to perform its operations. Further, the group has achieved revenues of Rs.15.17 Cr from April 2020 to October 2020. Ability of the group to improve its scale of operations, while maintaining the profitability margins are key rating sensitivity factors over the medium term.

- **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.

Rating Sensitivities

- Lower than expected revenues and profitability
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity.

Liquidity Position: Adequate

The liquidity position of the group remained adequate during the review period. The cash accruals of the group stood in the range of Rs.1.15-1.49 Cr through FY2018-2020 against nil repayment debt obligations. The net cash accruals are expected to be around Rs.1.10-2.50 Cr through FY21-FY23 against the repayment obligation of Rs.0.60-0.80 Cr for the said period. The cash and bank balance of the group stood at Rs.1.01 Cr as on March 31, 2020 (Prov.). The current ratio of the group stood at 1.36 times as on March 31, 2020 (prov.). The bank lines of the group remained almost fully utilized at 99 percent over the last six months ended October 2020. Acuite believes that the liquidity profile continues to be adequate over the medium term.

Outlook: Stable

Acuite believes that the group will maintain a 'Stable' outlook over the medium term backed by its experienced management and adequate revenue visibility. The outlook may be revised to 'Positive' in case of a significant improvement in its revenues while maintaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in working capital, leading to deterioration in financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	18.39	45.28
PAT	Rs. Cr.	1.33	1.70
PAT Margin	(%)	7.24	3.75
Total Debt/Tangible Net Worth	Times	0.60	0.65
PBDIT/Interest	Times	1.72	2.37

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
06-Sept-19	Cash Credit	Long Term	5.60	ACUITE BB-/Stable (Upgraded)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Upgraded)
	Bank Guarantee/Letter of Guarantee	Short Term	7.00	ACUITE A4+ (Upgraded)
	Proposed Bank Guarantee	Short Term	5.00	ACUITE A4+ (Upgraded)
	Proposed Long Term Bank Facility	Long Term	2.40	ACUITE BB-/Stable (Upgraded)
17-Aug-18	Cash Credit	Long Term	5.60	ACUITE B/Stable (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	9.00	ACUITE A4 (Assigned)
	Proposed Bank Guarantee	Short Term	3.00	ACUITE A4 (Assigned)
	Proposed Bank Facility	Long Term	2.40	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 B/Stable (Downgraded)
Term Loan 1	Apr 2020	8.00	Mar 2022	0.56	ACUITE B/Stable (Assigned)
Term Loan 2	Jun 2020	7.50	May 2024	1.36	ACUITE B/Stable (Assigned)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	0.48	ACUITE B/Stable (Downgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A4 (Downgraded)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4 (Downgraded)

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About Acuité Ratings & Research:

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