

Press Release

Shree Banke Bihari Ispat Private Limited

January 23, 2020



Rating Downgraded

Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	ACUITE B-/Outlook: Stable (Downgraded from ACUITE BBB-/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to '**ACUITE B-**' (**read as ACUITE B minus**) on the Rs. 15.00 crore bank facilities of Shree Banke Bihari Ispat Private Limited (SBBIPL). The outlook is '**Stable**'.

The downward revision in rating is attributed to the reassessment of the overall credit risk profile of Shree Banke Bihari Group conducted by Acuité post receipt of revised financial data from external sources. Acuite has observed material discrepancy in the financial statements submitted by the company at the time of initial rating and these revised financials. Acuite believes that the misrepresentation of the financial statements by the management is reflective of heightened management risk. While the management attributes the misrepresentation as fraudulent activity by one of its employees, it still is a matter of concern for Acuite.

SBBIPL is a part of the Banke Bihari Group based at Chhattisgarh, and was incorporated in 2004 by Mr. Bhola Prasad Agrawal, Mr. Pawan Agrawal, Mr. Harbilash Agrawal Mr. Ajay Agrawal and Mr. Mayank Agrawal. The company is engaged in manufacturing of sponge iron billets and steel ingots.

The company is a part of the business group, hereinafter referred to as Banke Bihari Group comprising of Shree Rupanadham Steel Private Limited and Shree Banke Bihari Ispat Private Limited. Shree Rupanadham Steel Private Limited and Shree Banke Bihari Ispat Private Limited have integrated operations for the manufacturing of sponge iron billets and steel ingots.

In addition to the iron and steel industry the group has strong presence in infrastructure, real estate and other sectors as well via group companies' viz. Shree Banke Bihari Steel & Power Limited, Shree Banke Bihari Infracon Private Limited, Shree Banke Bihari Build-con and Pawan Borewell Service

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of Shree Rupanadham Steel Private Limited and Shree Banke Bihari Ispat Private Limited together referred to as the 'Banke Bihari Group (BBG)'. The consolidation is due to the common promoters, significant operational and financial synergies within the group. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

BBG is headed by Mr. Bhola Prasad Agrawal, Mr. Pawan Agrawal, Mr. Harbilash Agrawal Mr. Ajay Agrawal and Mr. Mayank Agrawal who are all seasoned professionals in the iron and steel industry, each having an experience of over two decades. The group has an established track record with around two decades of presence in the aforementioned industry. The established track record of operations and rich experience of the promoters has helped the group maintain healthy relationship with their clientele base.

Acuité believes that the group will continue to benefit from its established presence in the aforementioned industry along with the demonstrated track record of the promoter's.

Weaknesses

• Debt funded capex plan

BBG has undertaken a capex of Rs.85.00 to 90.00 crores in FY2019 for the manufacturing a power plant with the installed capacity of 12 MW for the in-house energy requirements of the group and a new furnace to boost the installed capacity of the group; it is funded out of term loan of Rs.55.0 crores and rest out of internal accruals and promoter's infusion. Acuité believes optimal utilization of installed capacity and maintenance of working capital cycle would be key credit metrics to the rating.

• Competitive industry

BBG operates in a highly competitive steel long products industry thereby putting pressure on capacity utilization and pricing power. In addition, the industry is reeling under the pressure of cheaper imports. Slowdown in demand and threat of cheaper imports is leading to the industry players piling up inventory or operating at low margins. The performance of the company is linked to the steel industry which is cyclical in nature as well as end user industries like real estate and construction.

Key Rating Sensitivity Factors

- Significant improvement in revenues while improvement in working capital.
- Significant elongation in working capital due to capital expenditure.

Liquidity Position: Adequate

BBG has stretched liquidity marked by average net cash accruals to maturing debt obligations. The group generated cash accruals estimated around Rs. 2.00-2.50 crores during FY2019 against the debt obligation of Rs. 1.40-1.80 crores. The cash credit limit of the group remains utilized at around 66.24 per cent during the last twelve months' period ended September 2019. Further the group is under the process of executing a capital expenditure of around Rs.85.00 to 90.00 crores consisting of bank borrowings of Rs. 55.00 crores which will further impact the profitability of the group.

Outlook: Stable

Acuité believes that BBG will maintain a 'Stable' outlook over the medium term, owing to its promoters' extensive experience in the industry and longstanding operations. The outlook may be revised to 'Positive' in case the group achieves higher than expected sales and profitability, while diversifying its revenue profile and sustains its capital structure. Conversely, the outlook may be revised to 'Negative' if there is a further deterioration in working capital management leading to higher reliance on external borrowing thereby impacting financial risk profile and liquidity.

About the Rated Entity - Key Financials

Shree Rupanadham Steel Private Limited

	Unit	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	54.05	43.17
Profit After Tax (PAT)	Rs. Cr.	0.40	0.24
PAT Margin	(%)	0.74	0.55
Total Debt/Tangible Net Worth	Times	0.53	0.36
PBDIT/Interest	Times	2.99	4.20

Shree Banke Bihari Ispat Private Limited

	Unit	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	49.58	37.18
Profit After Tax (PAT)	Rs. Cr.	0.20	0.16
PAT Margin	(%)	0.40	0.43
Total Debt/Tangible Net Worth	Times	0.34	0.43
PBDIT/Interest	Times	2.40	3.01

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

Not Applicable

Any other information

Not Applicable

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>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation Criteria- <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
29-Nov-2019	Cash Credit	Long Term	9.50	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	5.50	ACUITE BBB-/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	9.50	ACUITE B-/Stable (Downgraded from ACUITE BBB-/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE B-/Stable (Downgraded from ACUITE BBB-/Stable)

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About Acuité Ratings & Research:

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