

Press Release

Shree Banke Bihari Ispat Private Limited

October 09, 2020

Rating Reaffirmed & Withdrawn



Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	ACUITE B- (Reaffirmed & Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuite has withdrawn the long-term rating of '**ACUITE B-**' (read as **ACUITE B minus**) on the Rs. 15.00 crore bank facilities of Shree Banke Bihari Ispat Private Limited (SBB IPL). The rating is being withdrawn based on a request received from the company and a no objection certificate from the banker. The rating withdrawal is in accordance with Acuite's policy.

Acuite had downgraded the rating of the company in January 2020 due to the reassessment of the overall credit risk profile of Shree Banke Bihari Group undertaken by Acuite post receipt of revised financial data from external sources. Acuite had taken note of a significant material discrepancy in the financial statements of SRSPL between those received during the initial rating and thereafter in the subsequent review. Acuite believes that the severe inconsistency in the financial statements is reflective of heightened management risk.

SBB IPL 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 a 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

Acuite 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 have helped the group maintain a healthy relationship with their clientele base.

Acuite believes that the group will continue to benefit from its established presence in the aforementioned industry, along with the demonstrated track record of the promoters.

Weaknesses

• Debt funded capital expenditure plan

BBG has undertaken a capex of Rs.85.00 to 90.00 Cr 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. Acuite believes optimal utilization of installed capacity and maintenance of working capital cycle would be the key rating sensitivities.

• Working Capital intensive nature of operations

BBG's operations deteriorated to working capital intensive in nature as reflected by its estimated gross current asset (GCA) days of around 126 days as on March 31, 2020 (Provisional) as against 83 days in the previous year. The GCA days remain high on account of the increment in debtor collection period of the company to 35 days which stood at approximately 6 days in FY2019. The inventory holding period of BBG is around 45 days for FY2020 (Provisional) as against 48 days in the previous year. In addition to the above, the creditor payback period of BBG stands at 24 days in FY2020 (Provisional). Acuite expects the operations of BBG to remain working capital intensive on account of high debtor collection period maintained by the group.

• 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.

Liquidity Position: Adequate

BBG has adequate liquidity, marked by average net cash accruals to maturing debt obligations. The group generated cash accruals estimated around Rs. 3.92 Cr during FY2020 against the debt obligation of Rs. 1.07 Cr. The cash credit limit of the group remains utilized at around 44.62 per cent during the last twelve months period ended in July 2020. However, the group is under the process of executing a capital expenditure of around Rs.85.00 to 90.00 Cr s consisting of bank borrowings of Rs. 55.00 Cr, which may impact the profitability of the group and consequently affect the liquidity position.

Outlook: Stable

Acuite believes that BBG will maintain a 'Stable' outlook over the medium term, owing to its track record in the industry. 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	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	139.63	125.82
Profit After Tax (PAT)	Rs. Cr.	1.90	1.01
PAT Margin	(%)	1.36	0.81
Total Debt/Tangible Net Worth	Times	1.10	0.70
PBDIT/Interest	Times	2.56	2.70

Shree Banke Bihari Ispat Private Limited

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	44.78	49.88

Profit After Tax (PAT)	Rs. Cr.	0.73	0.35
PAT Margin	(%)	1.62	0.69
Total Debt/Tangible Net Worth	Times	1.68	0.47
PBDIT/Interest	Times	4.33	3.12

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-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Consolidation Criteria- <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
23-Jan-2020	Cash Credit	Long Term	9.50	ACUITE B-/Stable (Downgraded from ACUITE BBB-/Stable)
	Term Loan	Long Term	5.50	ACUITE B-/Stable (Downgraded from ACUITE BBB-/Stable)
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- (Reaffirmed & Withdrawn)
Term Loan	March 2019	10.25%	October 2025	5.50	ACUITE B- (Reaffirmed & Withdrawn)

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About Acuite Ratings & Research:

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