

Press Release

Shree Bholey Alloys Private Limited

June 08, 2020



Rating Assigned

Total Bank Facilities Rated	Rs. 57.86 crore
Long Term Rating	ACUITE BBB-/ Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned a long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and a short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs.57.86 crore bank facilities of Shree Bholey Alloys Private Limited. The outlook is '**Stable**'.

Incorporated in 2008 and promoted by Mr. Rakesh Kumar Singh and Mr. Satya Nand Singh, Shree Bholey Alloys Private Limited (SBAPL), is engaged in manufacturing of silico manganese and has a plant situated at Bokaro(Jharkhand) operating at an installed capacity of 21560 MTPA. The company has significant presence at Northern and Western India and procures their primary raw material which is manganese ore from Manganese Ore India Limited (MOIL)

Analytical Approach

Acuité has considered the standalone business and risk profile of SBAPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The promoters of the company, Mr. Rakesh Kumar Singh and Mr. Satya Nand Singh have more than a decade of experience in the ferro alloys industry. Acuité believes that the extensive experience of the management has enabled SBAPL to establish healthy relationships with suppliers including MOIL and reputed customers including Prime Alloys and Shree Kakshi Metal ensuring repeat orders.

- **Geographically diversified revenue profile**

The company has reported healthy revenue growth with compounded annual growth rate (CAGR) of 10.15 percent during the last three years ended FY2019. The company reported operating income of Rs. 117.50 crores in FY2019 and Rs.87.91 crores in FY2017. The company has reported revenue of around Rs.107.80 crores during April 2019 To March 2020 (Provisional). The growth in the SBAPL's revenues is driven by the continuous demand of the products from diverse customer base of the entities located in North and West India including the states Gujarat, Punjab and Uttar Pradesh and Rajasthan. Additionally, they have also received 1,000MT per month for 3 months of additional order of Rs. 18 crores from Electrosteel Casting during May 2020. Acuité believes SBAPL's diversified geographical presence will support their revenues growth going forward.

- **Comfortable financial risk profile**

The company's comfortable financial risk profile is marked by modest net worth, low gearing and healthy debt protection metrics. The net worth of the company improved to Rs.23.78 crores as on March 31, 2019 from Rs.21.67 crores as on March 31,2018 due to retention of profits. Similarly, as on March 31, 2020 net worth increased to Rs 27.58 crores (Provisional). Acuité has considered unsecured loans to the tune of Rs. 11.55 crores as on March 31, 2020(Provisional) as part of networth, as these loans are subordinated to bank debt. The debt of Rs.13.09 crore mainly consists of long term debt of Rs.0.47 crore, short term debt of Rs.12.49 crores and maturing obligation of Rs.0.12 crore as on March 31, 2019. The company has low gearing at 0.55 times as on March 31, 2019 as against 0.70 times as on March 31, 2018. The gearing increased to 0.79 times due to increase in short term debt as on March 31, 2020(Provisional). The healthy

debt protection metrics of the company is marked by Interest Coverage Ratio stood at 2.51 times (Provisional) as on FY2020 as against 2.23 times as on FY2019. The firm has capex plans of around Rs.25 crore over the medium term which is expected to be funded from long term debt of Rs.16.60 crore and rest through unsecured loans. Despite the debt funded capex plan, Acuité expects the gearing levels of the company to remain at low levels though there will be deterioration from the current levels. Overall, the financial risk profile of the company is expected to be sustained at comfortable levels.

Weaknesses

- **Working capital intensive operations**

The company's working capital operations are intensive marked by high gross current asset (GCA) of about 196 days in FY2019 as compared to 182 days in FY2018 due to increase in inventory days from 148 days in FY2018 to 175 days in FY2019. Manganese ores are purchased from open cast mines and they maintain the inventory in the months of February and March prior to the commencement of the monsoon season which ranges from 4 to 6 months i.e. from June to September. After March, the prices soar up by 7 to 8 per cent. In FY2020, the company expects the GCA days would decrease to 184 days (Provisional) due to reduction in the inventory days as they are steadily switching from imports to domestic purchases as the transit time was higher in case of imports. Further, the debtor days stood at 20 days in FY2019 as against 24 days in FY2018. The company allows a credit period of 30 days and it expects to remain in the same levels in the medium term. The bank limit utilization levels at 68 percent for the past six months ended March 2020. Hence, Acuité expects the operations of the company to remain working capital intensive due to high inventory levels maintained by the company to cater to their customers.

- **Intense competition and inherent cyclicity in the steel industry**

The industry remained heavily fragmented and unorganised. The company is exposed to intense competitive pressures from large number of organised and unorganised players along with its exposure to inherent cyclical nature of the steel industry. Additionally, prices of raw materials and products are highly volatile in nature.

Rating Sensitivity

- Improvement in scale of operations while maintaining profitability margins
- Improvement in working capital management

Material Covenants

None

Liquidity Profile

The company's liquidity is adequate marked by steady net cash accruals of Rs.4.03 crores in FY2020 (Provisional) as against maturing obligation of Rs.0.12 crore over the same period. The net cash accruals are expected to be largely sufficient in order to service its long term debt obligations ranging from Rs.0.12 crore to Rs. 2.07 crores over the medium term. The current ratio stood at 1.43 times as on March 31, 2020(Provisional). The bank limit remains utilized at 68 percent over six months ended on March, 2020. The company has not availed any loan moratorium or additional COVID loan. The unencumbered cash and bank balances stood at Rs.4.09 crores as on March 31, 2020(Provisional). Acuité believes that the liquidity of SBAPL continues to remain adequate supported by steady accruals.

Outlook: Stable

Acuité believes that going forward, the outlook on SBAPL will remain 'Stable' over the medium term because of their experienced promoters, geographically diversified revenue profile and stable operating margins. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while maintaining the profitability and improving its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of more than expected debt-funded capital expenditure plan leading to deterioration of the capital structure and further deterioration in working capital management.

About the Rated Entity - Key Financials

	Unit	FY19(Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	117.50	114.08
PAT	Rs. Cr.	1.92	0.85
PAT Margin	(%)	1.63	0.74
Total Debt/Tangible Net Worth	Times	0.55	0.70
PBDIT/Interest	Times	2.23	2.11

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

Brickwork vide its press release dated 26th March, 2020 has mentioned the rating for SBAPL of 'BWR BB+/Stable/A4+Issuer not cooperating'.

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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.) Crore	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB-/Stable (Assigned)
Term Loan	19/02/2020	Not Applicable	31/03/2028	16.86	ACUITE BBB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A3 (Assigned)

Contacts

Analytical	Rating Desk
Pooja Ghosh Head - Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Shubham Ghosh Analyst - Rating Operations Tel: 033-66201212 shubham.ghosh@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile ACUITE Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.