

Press Release

Shri Balaji Industrial Products Limited

November 11, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 25.00 crore
Long Term Rating	ACUITE BBB+/ Stable (Assigned)

*Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB+**' (**read as ACUITE triple B plus**) on the Rs. 25.00 crore bank facilities of Shri Balaji Industrial Products Limited (SBIPL). The outlook is '**Stable**'.

Incorporated in 1985, Shri Balaji Industrial Products Limited (SBIPL) is a Jaipur-based company engaged in manufacturing of alloy steel castings having an installed capacity of 39,700 MTPA. Alloy steel castings are used in thermal power plants for grinding of coal, in cement industry for grinding of clinker, mining and defence industry. The company has set up a new plant in Aug, 2018 having an installed capacity of 20,000 MTPA in Bhilai, Chhattisgarh.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of Shri Balaji Industrial Engineering Limited (SBIEL) and Shri Balaji Industrial Product Limited (SBIPL) to arrive at the rating. The consolidation is in account of the operations in the similar industry, common management and operational and financial synergies.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

The group has a long track record of around three decades in the castings & forgings industry and two decades in the sponge iron manufacturing industry. The group is promoted by Mr. Kailash Kumar Kanodia, who has vast experience of around three decades in the steel industry. His son, Mr. Ashish Kumar Kanodia, possesses more than a decade of industry experience and looks after the day-to-day operations of the group. The group is ably supported by a strong and experienced line of mid-level managers. Acuité believes that the vast experience of the promoter and the long track record has enabled the group to build a strong relationship with customers as well as suppliers, resulting in continued order flow from customers.

- **Reputed Customer Base**

The company caters to reputed companies like Jindal Steel and Power Limited, Godawari Power and Ispat Limited, Lafarge, Shree cement, Ultratech Cement and various State power generation companies, etc. The company has developed a healthy relationship with these large players in power, mining and cement sector. For government entities, the company quotes for the contracts on a tender basis. The company's product, i.e. alloy steel castings are used in thermal power plants for grinding of coal, in cement industry for grinding of clinker, mining and defence industry. Since last two years, the company has started supplying to Heavy Vehicles Factory for manufacturing equipments used for defence. Further, the company also exports its products to different customers across different countries such as Saudi Arabia, Thailand. Acuité believes that the company's long-standing relationship with these clients will keep the business operations in

good stead going forward.

- **Healthy revenues and profitability**

The group operates at a healthy scale, though the revenues decreased to Rs. 382.39 crore in FY20 from Rs. 415.61 crore in FY2019, marking a de growth of 8.0 per cent. The decline in revenues is on account of lower sales volume following a decrease in demand from end user industry and lower realization for sponge iron. Further, despite affected by the Covid lockdown in April, the group has achieved healthy revenues of Rs. 188.84 crore till Sep, 2020 (Provisional).

The group has witnessed healthy operating margins of ~ 10.37 per cent in FY2020 as compared to 7.88 per cent in FY2019. The high profitability margins are due to healthy capacity utilization and decline in prices of key raw materials, iron scrap. Moreover, SBPL has started supplying to defence industry since last 2 years, which fetch higher margin as compared to other sectors. PAT margin stood modest at 3.71 per cent in FY 2020 as compared to 1.26 per cent in the previous year. The improvement in profitability has resulted in the overall improvement in cash accruals which stood at Rs. 26.31 crore in FY20 as against Rs. 16.01 crore a year earlier. Acuité believes that the company's ability to register significant growth in its revenues while sustaining its profitability would be key rating sensitivities.

- **Comfortable financial risk profile**

The financial risk profile of the group is marked by high net worth, comfortable gearing and healthy debt protection metrics. The net worth of the group stood at Rs. 133.99 Cr. as on 31 March, 2020 as against Rs.119.00 Cr. as on 31st March, 2019. The gearing (debt-equity) stood low at 0.74 times in FY2020 as against 0.98 times in FY2019. The total debt of Rs. 99.70 Cr. as on March 31, 2020 consists of short term borrowings of Rs.63.83 Cr, unsecured loan from promoters of Rs.11.68 Cr and long term borrowings of Rs.24.18 Cr. Moreover, the interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood healthy at 3.43 times and 2.06 times in FY2020 as compared to 2.69 times and 1.94 times in FY2019, respectively. The NCA/TD stood at 0.26 times in FY2020. Acuité believes that the financial risk profile of the group will remain comfortable in the absence of any major debt-funded capex plans in the medium term.

Weaknesses

- **Susceptibility to volatility in raw material prices and foreign exchange fluctuation risk**

The prices of raw materials, iron ore, coking coal, steel scrap and ferrochrome are volatile in nature, and therefore the group's profitability is highly susceptible to such volatility in raw material prices.

Further, the operating margins are also vulnerable to fluctuations in the foreign exchange rate. Since the group directly imports part of its coal requirement (around 23 percent in FY20) mainly from Singapore, the company's business is exposed to adverse changes in the foreign exchange rate. Hence, Acuité believes that the company's ability to improve its profitability while managing foreign exchange rate fluctuation risk would remain a key rating sensitivity.

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

The company is operating in a competitive and fragmented nature of industry, especially in primarily steel producing industry. There are several players who are engaged in the sponge iron and castings manufacturing business in organized and unorganized sector. Moreover, the profit margins and sales of the company remains exposed to inherent cyclical in the steel industry.

Rating Sensitivity

- Growth in scale of operations while improving operating profitability
- Deterioration in financial risk profile in case of major debt-funded capex plans

Material Covenants

None

Liquidity Position: Adequate

The group's liquidity is adequate marked by net cash accruals of Rs.26.31 crore in FY2020 against long term debt obligations of Rs.4.96 crore. Further, the group's operations are moderately working capital intensive marked by Gross Current Asset (GCA) of 145 days in FY2020 as against 130 days in FY2019. The current ratio stood at 1.32 times as on March 31, 2020. The group has utilised ~ 68 per cent of its working capital facilities during the twelve months ended March, 2020. The group maintains unencumbered cash and bank balances of Rs.0.77 crore as on March 31, 2020. The group had not availed moratorium during Mar 2020 to Aug 2020 and applied for Covid loan of Rs.1.00 crore in SBIEL and Rs. 4.10 crore in SBIPL. Going forward, Acuité believes that the group's liquidity to remain adequate owing to the increased cash accruals over the medium term.

Outlook: Stable

Acuité believes the group's outlook will remain stable over the medium term on account of its experienced management, reputed customer base and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenues or profit margins and deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	382.39	415.61
PAT	Rs. Cr.	14.19	5.23
PAT Margin	(%)	3.71	1.26
Total Debt/Tangible Net Worth	Times	0.74	0.98
PBDIT/Interest	Times	3.43	2.69

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-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Consolidation Of Companies - <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)

Not Applicable

***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	25.00	ACUITE BBB+/Stable (Assigned)

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About Acuité Ratings & Research:

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