

Press Release

Shri Balaji Industrial Products Limited

April 28, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 138.00 crore
Long Term Rating	ACUITE BBB+/ Stable (Reaffirmed)
Short Term Rating	ACUITE A2 (Reaffirmed)

*Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on Rs. 138.00 crore bank facilities of Shri Balaji Industrial Products Limited (SBIPL). The outlook remains '**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 setup a new plant in Aug, 2018 having an installed capacity of 20,000 MTPA in Bhilai, Chhattisgarh.

About the Group Company

Incorporated in 2008, Shri Balaji Industrial Engineering Limited (SBIEL) is a Jharkhand based company engaged in manufacturing of sponge iron. The manufacturing unit is located at Barajamda in Jharkhand, having an installed capacity of 1,20,000 MTPA of sponge iron. In April, 2008, SBIEL was de-merged from Shri Balaji Industrial Products Limited to carry on the sponge iron manufacturing business independently. The company is promoted by Mr. Kailash Kumar Kanodia and his son, Mr. Ashish Kumar Kanodia who looks after the day-to-day operations of the company.

Analytical Approach

Acuite 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. Extent of Consolidation: Full

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. Acuite believes that the vast experience of the promoter and the long track record has enabled the group to build strong relationship with customers as well as suppliers, resulting in continued order flow from customers.

- **Reputed Customer Base**

The group caters to reputed companies like Jindal Steel and Power Limited, Godawari Power and Ispat Limited, Lafarge Cement, Shree Cement Limited, Ultratech Cement Limited and various State power generation companies, etc. The group has developed healthy relationship with these large players in power, mining and cement sector. For government entities, the group quotes for the contracts on tender basis. The group's product ie, 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 group has started supplying to Heavy Vehicles Factory for manufacturing equipments used for defence. Further, the group also exports its products to different customers across various geographies such as Saudi Arabia, Thailand etc. Acuité believes that the group'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 year on year. The decline in revenues is on account of lower sales volume following 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, SBIPL 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 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 group's ability to register significant growth in its revenues while sustaining its profitability would be key monitorable.

- **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 strong 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

- **Moderate Working capital operations**

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. Rise in GCA days is mainly on account of higher inventory of around 100 days in FY2020 as compared to 64 days in FY2019. The group needs to maintain adequate stock of raw materials, mainly iron ore and coal in order to execute orders on time. The debtor days improved to 36 days for FY2020 as against 43 days for FY2019. Moreover, moderate working capital intensity is depicted by utilization of around 73 per cent of working capital limits in the last twelve months ended March,2020.

Acuité believes that the ability of the group to manage its working capital operations efficiently

will remain a key rating sensitivity.

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

The prices of raw materials, iron ore, coking coal, steel scrap and ferro chrome 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 group's business is exposed to adverse changes in the foreign exchange rate. Hence, Acuite believes that the group's ability to maintain its profitability while managing foreign exchange rate fluctuation risk would remain a key rating sensitivity.

Rating Sensitivity

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

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 only Rs.4.96 crore. Net cash accruals are expected to remain in the range of Rs.25.00-35.00 Cr. over the medium term. The group has utilised ~ 73 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 current ratio stood at 1.32 times as on March 31, 2020. 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 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 SBPL. Going forward, Acuite believes that the group's liquidity to remain adequate owing to the increased cash accruals over the medium term.

Outlook: Stable

Acuite 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 group registers healthy growth in revenues while achieving sustainability in operating margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues or profit margins or further elongation in the operating cycle.

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)

Date	Name of the Facilities	Term	Size of the Issue (Rs. Cr.)	Ratings/Outlook
24-Dec-2020	Cash Credit	Long Term	26.00	ACUITE BBB+/Stable (Reaffirmed)
	Cash Credit	Long Term	13.00	ACUITE BBB+/Stable (Assigned)
	Export Packing Credit/PCFC	Short Term	5.00	ACUITE A2 (Assigned)
	Bill Discounting	Short Term	10.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	40.00	ACUITE A2 (Assigned)
	Letter of Credit	Short Term	16.50	ACUITE A2 (Assigned)
	Letter of Credit	Short Term	22.50	ACUITE A2 (Assigned)
	Standby Letter of Credit	Short Term	5.00	ACUITE A2 (Assigned)
11-Nov-2020	Cash Credit	Long Term	25.00	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	26.00	ACUITE BBB+/Stable (Reaffirmed)

Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB+/Stable (Reaffirmed)
Export Packing Credit/PCFC	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 (Reaffirmed)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A2 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	16.50	ACUITE A2 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	22.50	ACUITE A2 (Reaffirmed)
Standby Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-6620 1203 pooja.ghosh@acuite.in</p> <p>Kaustav Saha Senior Rating Analyst- Rating Operations Tel: 033-6620-1211 kaustav.saha@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research

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