

Press Release

Shri Balaji Industrial Products Limited

December 29, 2021



Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Ratings	99.00		ACUITE A2+ Upgraded
Bank Ratings	17.16	ACUITE A- Stable Assigned	
Bank Ratings	39.00	ACUITE A- Stable Upgraded	
Total	155.16	-	-

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE A-**' (**read as ACUITE A minus**) from '**ACUITE BBB+**' (**read as ACUITE Triple B Plus**) and the short term rating to '**ACUITE A2+**' (**read as ACUITE A two plus**) from '**ACUITE A2**' (**read as ACUITE A two**) on Rs. 138.00 crore bank facilities of Shri Balaji Industrial Product Limited (SBIEL). Acuité has also assigned the long term of '**ACUITE A-**' (**read as ACUITE A minus**) on Rs. 17.16 crore bank facilities of Shri Balaji Industrial Product Limited (SBIEL). The outlook remains '**Stable**'.

The rating upgrade is primarily driven by healthy revenue growth along with improvement in the overall financial risk profile. This improvement is on account of rise in average realization of sponge iron resulting in increase in profitability margin. The ratings also factor in the group's diversified customer base which includes reputed steel and cement companies. In addition, the group has an adequate liquidity profile. However the rating strengths are partially offset by the cyclical nature of the steel industry and high working capital requirement in the business.

About the Company

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

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

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 on 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

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 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, Nuvoco Vistas Corporation Ltd, 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 defense industry. Since last two years, the group has started supplying to Heavy Vehicles Factory for manufacturing equipment used for defense. 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.

Improvement in the scale of operation

The group has witnessed healthy revenue growth of around 18 percent during FY21 backed by rise in sales volume and average realization of sponge iron. Moreover the order flow from reputed companies and Central government undertakings had improved. The group has registered a revenue of Rs 273 Cr in H1FY21. Acuité the scale of operation will continue to remain at similar level over the medium term.

Improving profitability margin

The group had witnessed sustained improvement in profit margin as EBITDA margin stood at 12.82 percent in FY21 as against 10.37 percent in FY20 and 7.88 percent in FY19. RoCE of the group stood comfortable at 18.86 percent in FY21 as against 12.32 percent in FY20. The improvement is driven by rise in average realization of finished goods. Acuité believes the profitability margin of the group will continue to remain at comfortable level over the medium term.

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. 157.75 Cr. as on 31 March, 2021 as against Rs.133.99 Cr. as on 31st March, 2020. The gearing (debt-equity) stood low at 0.59 times in FY2021 as against 0.74 times in FY2020. TOL/TNW stood at 0.97 times in FY21 as against 1.24 times in FY20. The group has low reliance on external debt which led to decline in financial cost. Moreover, the interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood strong at 5.82 times and 3.15 times in FY2021 as compared to 3.43 times and 2.06 times in FY2020 respectively. The NCA/TD stood at 0.41 times in FY2021 as against 0.26 times in FY20. 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 136 days in FY2021 as against 146 days in FY2020. Inventory day stood at 70 days in FY2021 as against 100 days in FY2020. The debtor days improved to 32 days for FY2021 as against 37 days for FY2020. Acuité expects the GCA days to hover around same levels over the medium term because of large inventory level.

Cyclical nature of the industry

The group's performance remains vulnerable to cyclical in the steel sector as demand for steel depends on the performance of the end user segments such as construction and real estate. Indian steel sector is highly competitive due to the presence of a large number of players. The operating margin of the group is exposed to fluctuations in the prices of intermediate goods as well as realization from finished goods.

Rating Sensitivities

- Improvement in financial risk profile along with substantial improvement in profitability margin
- Sustenance of revenue growth

Material covenants

None

Liquidity profile: Adequate

The group's liquidity is adequate marked by net cash accruals of Rs.37.57 crore in FY2021 against long term debt obligations of only Rs.4.95 crore. Net cash accruals are expected to remain in the range of Rs.45.00-35.00 Cr. as against nominal current maturity of Rs 3.00 Cr over the medium term. The group has utilised ~ 58 per cent of its working capital facilities during the twelve months ended October 2021. The group maintains unencumbered cash and bank balances of Rs. 3.50 crore as on March 31, 2021. The current ratio stood modest at 1.64 times as on March 31, 2021. The group's operations are moderately working capital intensive marked by Gross Current Asset (GCA) of 136 days in FY2021 as against 146 days in FY2020. 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 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 elongation in the operating cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	454.22	382.39
PAT	Rs. Cr.	26.66	14.19
PAT Margin	(%)	5.87	3.71
Total Debt/Tangible Net Worth	Times	0.59	0.74
PBDIT/Interest	Times	5.82	3.43

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>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument<https://www.acuite.in/view-rating-criteria-55.htm>**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Jun 2021	Standby Line of Credit	Short Term	5.00	ACUITE A2 (Reaffirmed)
	Letter of Credit	Short Term	22.50	ACUITE A2 (Reaffirmed)
	Bank Guarantee	Short Term	40.00	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	13.00	ACUITE BBB+ Stable (Reaffirmed)
	Cash Credit	Long Term	26.00	ACUITE BBB+ Stable (Reaffirmed)
	Letter of Credit	Short Term	16.50	ACUITE A2 (Reaffirmed)
	Bills Discounting	Short Term	10.00	ACUITE A2 (Reaffirmed)
	Packing Credit	Short Term	5.00	ACUITE A2 (Reaffirmed)
28 Apr 2021	Letter of Credit	Short Term	16.50	ACUITE A2 (Reaffirmed)
	Bank Guarantee	Short Term	40.00	ACUITE A2 (Reaffirmed)
	Packing Credit	Short Term	5.00	ACUITE A2 (Reaffirmed)
	Bills Discounting	Short Term	10.00	ACUITE A2 (Reaffirmed)
	Letter of Credit	Short Term	22.50	ACUITE A2 (Reaffirmed)
	Standby Line of Credit	Short Term	5.00	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	13.00	ACUITE BBB+ Stable (Reaffirmed)
	Cash Credit	Long Term	26.00	ACUITE BBB+ Stable (Reaffirmed)
24 Dec 2020	Cash Credit	Long Term	13.00	ACUITE BBB+ Stable (Assigned)
	Packing Credit	Short Term	5.00	ACUITE A2 (Assigned)
	Cash Credit	Long Term	26.00	ACUITE BBB+ Stable (Reaffirmed)
	Letter of Credit	Short Term	16.50	ACUITE A2 (Assigned)
	Letter of Credit	Short Term	22.50	ACUITE A2 (Assigned)

	Bank Guarantee	Short Term	40.00	ACUITE A2 (Assigned)
	Standby Line of Credit	Short Term	5.00	ACUITE A2 (Assigned)
	Bills Discounting	Short Term	10.00	ACUITE A2 (Assigned)
11 Nov 2020	Cash Credit	Long Term	25.00	ACUITE BBB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A2+ Upgraded
State Bank of India	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ Upgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE A- Stable Upgraded
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE A- Stable Upgraded
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	16.50	ACUITE A2+ Upgraded
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	22.50	ACUITE A2+ Upgraded
State Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ Upgraded
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.62	ACUITE A- Stable Assigned
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ Upgraded
HDFC Bank Ltd	Not Applicable	Term Loan	30-06-2019	Not available	30-06-2025	14.09	ACUITE A- Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	30-06-2019	Not available	30-06-2024	2.45	ACUITE A- Stable Assigned

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About Acuité Ratings & Research

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