

Press Release

Shri Balaji Industrial Engineering Limited

November 11, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 crore
Long Term Rating	ACUITE BBB+/ Stable (Assigned)

*Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** on the Rs. 10.00 crore bank facilities of Shri Balaji Industrial Engineering Limited (SBIEL). The outlook is **'Stable'**.

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.

About the Group 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 set up a new plant in Aug, 2018 having an installed capacity of 20,000 MTPA in Bhilai, Chhattisgarh.

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.

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 a 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 a healthy relationship with these large players in power, mining and cement sector. For government entities, the group quotes for the contracts on a tender basis. The group'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 the 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. Acuite 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 decline of 8.0 per cent year on year. 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, 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 the overall improvement in cash accruals which stood at Rs. 26.31 crore in FY20 as against Rs. 16.01 crore a year earlier. Acuite 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. Acuite 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.

Acuite 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 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 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 SBIP. 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 a 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)

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	10.00	ACUITE BBB+/Stable (Assigned)

Contacts

Analytical	Rating Desk
<p>Pooja Ghosh Head-Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in</p> <p>Priyanka Rath</p> <p>Analyst - Rating Operations Tel: 033-66201212 priyanka.rathi@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research 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.