



Press Release
Shri Balaji Industrial Engineering Limited
December 22, 2023
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.00	ACUITE A Stable Upgraded	-
Bank Loan Ratings	66.00	-	ACUITE A1 Upgraded
Total Outstanding Quantum (Rs. Cr)	91.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to **'ACUITE A' (read as ACUITE A)** from **'ACUITE A-' (read as ACUITE A minus)** and the short-term rating to **'ACUITE A1' (read as ACUITE A one)** from **'ACUITE A2+' (read as ACUITE A two plus)** on the Rs.91.00 Cr bank facilities of Shri Balaji Industrial Engineering Limited (SBIEL). The outlook is **'Stable'**.

Rationale for rating upgrade

The rating upgrade of Shri Balaji Industrial Group (SBIG) takes into account improved operating performance in FY2023, efficient working capital operations marked by improved GCA days as well as the healthy financial risk profile marked by healthy net-worth, low gearing and healthy debt protection metrics. The rating also draws comfort from the experienced management of the group with an established track record of operations and its reputed clientele. The rating is however constrained by the group's presence in a highly competitive and cyclical nature of the steel industry. Going forward, ability of SBIG to maintain its scale of operations and profitability margins while maintaining the efficient working capital cycle will remain a key rating sensitivity factor.

About the Company

SBIEL incorporated in 2008, is a Jharkhand based company engaged in the 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

Shri Balaji Industrial Products Limited (SB IPL) incorporated in 1985, is a Jaipur-based company engaged in the manufacturing of alloy steel castings having an installed capacity of 36,000 MTPA. Alloy steel castings are used in thermal power plants for grinding of coal, in cement industry for grinding of clinker, in mining and in defence industry. The company is promoted by Mr. Sudhir Kumar Bansal and Mr. Ashish Kumar Kanodia who looks after the day-to-day operations of the company.

Unsupported Rating

Not Applicable

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of Shri Balaji

Industrial Engineering Limited (SBIEL) and Shri Balaji Industrial Products Limited (SBIP) together referred to as Shri Balaji Industrial Group (SBIG) 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

Experienced management with an established track record of operations and reputed clientele

SBIG has an operational track record of nearly four decades in the alloy steel casting industry and nearly two decades in the sponge iron manufacturing industry. The group is promoted by Mr. Kailash Kumar Kanodia, who possess an extensive experience of more than three decades in the steel industry. He is further supported by his son Mr. Ashish Kumar Kanodia and the other director Mr. Sudhir Kumar Bansal who are actively involved in day-to-day operations of the group. The extensive experience of the management has enabled SBIG to establish a healthy relationship with its reputed clientele such as Arcelormittal Nippon Steel India Ltd., Godawari Power & Ispat Ltd, KIOCL Limited, Longwear Ltd (UK). NTPC Ltd., Ambuja Cements, ACC Cements amongst others from whom they receive repetitive orders.

Acuité believes that SBIG will continue to benefit from its experienced management and established track record of operations.

Healthy financial risk profile

Financial risk profile of SBIG is healthy marked by healthy net worth, low gearing and healthy debt protection metrics. The tangible net-worth of the group stood healthy at Rs.239 Cr as on 31 March, 2023 as against Rs.187 Cr as on 31 March, 2022 due to healthy accretion of profits to reserves. The gearing (debt-equity) stood improved at 0.34 times as on 31 March, 2023 as against 0.42 times as on 31 March, 2022 despite an increase in the group's overall debt of Rs.81 Cr in FY2023 as against Rs.78 Cr in FY2022. This is due to an increase in the group's short term bank borrowings and unsecured loans from directors. The total debt of Rs.81 Cr as on March 31, 2023 comprises of long-term bank borrowings of Rs.10 Cr, unsecured loans from directors of Rs.25 Cr and short-term bank borrowings of Rs.46 Cr. The gearing of the group is expected to improve further and remain low over the medium term in the absence of any significant debt-funded capex plan.

The interest coverage ratio and DSCR stood improved at 10.27 times and 5.30 times for FY2023 as against 7.28 times and 3.78 times for FY2022. The Net Cash Accruals to Total debt stood improved at 0.78 times for FY2023 as against 0.51 times for FY2022. The Total outside liabilities to Tangible net worth stood improved at 0.64 times for FY2023 as against 0.97 times for FY2022. The Debt-EBITDA ratio stood improved at 0.92 times for FY2023 as against 1.42 times for FY2022.

Acuité believes that the financial risk profile of SBIG will remain healthy over the medium term due to its low gearing, healthy tangible net worth and healthy debt protection metrics.

Improved operating performance

SBIG reported an increase in its revenue of Rs.800 Cr for FY2023 as against Rs.591 Cr for FY2022 which is a growth of ~35 percent and has achieved this primarily on account of increase in the sale of its sponge iron and alloy steel casting products driven by an increase in the overall production and improved price realisation during the year. SBIEL largely sells sponge iron in domestic market while the alloy steel casting products are sold both in domestic market as well as exported to countries such as U.K., Singapore, UAE, China, Canada amongst others.

Further, the operating and net profit margin of the group stood improved at 10.55 percent and 6.50 percent for FY2023 as against 9.05 percent and 4.90 percent for FY2022 despite of increase in the overall operating costs and interest cost during the year. For the current year as of 6M FY2024, the group has achieved revenue of Rs.432 Cr as against Rs.429 Cr for the

same period during last year.

Acuité believes that the ability of SBIG to maintain its scale of operations and profitability margins will remain a key rating sensitivity factor.

Efficient working capital operations

The working capital operations of SBIG are efficient marked by its improved Gross Current Assets (GCA) of 99 days for FY2023 as against 133 days for FY2022. This is on account of its improved inventory cycle which stood at 56 days for FY2023 as against 84 days for FY2022. On the other hand, the receivables cycle of the group stood at similar level of 30 days for FY2023 and FY2022 whereas the creditors cycle of the group stood improved at 16 days for FY2023 as against 52 days for FY2022. The average bank limit utilization for 6 months' period ended September 2023 stood lower at ~12 percent.

Acuité believes that the ability of SBIG to maintain the efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

Weaknesses

Intense competition and inherent cyclicality in the steel industry

SBIG is operating in a competitive and fragmented nature of industry due to the presence of many unorganized players on account of low entry barriers. Moreover, demand for steel products predominantly depends on the construction and infrastructure sectors. Thus, the profit margins and sales of the company remains exposed to inherent cyclicality in these sectors.

Rating Sensitivities

- Ability to maintain the scale of operations and profitability margins
- Ability to maintain the efficient working capital cycle

All Covenants

Not applicable

Liquidity Position - Strong

SBIG has strong liquidity position marked by healthy net cash accruals (NCA) to its maturing debt obligations. The group generated cash accruals in the range of Rs.38 Cr to Rs.63 Cr during FY2021 to FY2023 against its debt repayment obligation of ~Rs.5 Cr during the same period. Going forward, the NCA are expected in the range of Rs.66 Cr to Rs.70 Cr for the period FY2024-FY2025 against its debt repayment obligation in the range of Rs.2 Cr to Rs.3 Cr during the same period. The working capital operations of the group are efficient marked by its gross current asset (GCA) days of 99 days for FY2023. The average bank limit utilization for 6 months' period ended September 2023 stood lower at ~12 percent. Current ratio stands at 2.06 times as on 31 March 2023. The group has maintained cash & bank balance of Rs.11 Cr in FY2023.

Acuité believes that the liquidity of SBIG is likely to remain strong over the medium term on account of healthy cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that SBIG will maintain 'Stable' outlook over the medium term on account of its experienced management with an established track record of operations, reputed clientele and healthy financial risk profile. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

Not applicable

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	800.26	591.45
PAT	Rs. Cr.	52.03	28.99
PAT Margin	(%)	6.50	4.90
Total Debt/Tangible Net Worth	Times	0.34	0.42
PBDIT/Interest	Times	10.27	7.28

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

Not applicable

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>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Sep 2022	Letter of Credit	Short Term	19.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	18.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	14.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	15.00	ACUITE A- Stable (Reaffirmed)
29 Dec 2021	Letter of Credit	Short Term	14.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Working Capital Demand Loan	Long Term	1.61	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Bank Guarantee	Short Term	8.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Working Capital Demand Loan	Long Term	1.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Proposed Long Term Loan	Long Term	10.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Letter of Credit	Short Term	14.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Standby Line of Credit	Long Term	5.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
07 Jun 2021	Letter of Credit	Short Term	14.00	ACUITE A2 (Reaffirmed)
	Letter of Credit	Short Term	14.00	ACUITE A2 (Assigned)
	Cash Credit	Long Term	20.00	ACUITE BBB+ Stable (Reaffirmed)
	Cash Credit	Long Term	1.00	ACUITE BBB+ Stable (Reaffirmed)
	Standby Line of Credit	Long Term	5.00	ACUITE BBB+ Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	1.61	ACUITE BBB+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	8.00	ACUITE A2 (Reaffirmed)
28 Apr 2021	Cash Credit	Long Term	1.61	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	30.00	ACUITE BBB+ Stable (Reaffirmed)
	Letter of Credit	Short Term	28.00	ACUITE A2 (Assigned)
		Long		

	Standby Line of Credit	Term	5.00	ACUITE BBB+ Stable (Assigned)
	Bank Guarantee	Short Term	8.00	ACUITE A2 (Assigned)
	Cash Credit	Long Term	1.00	ACUITE BBB+ Stable (Assigned)
24 Dec 2020	Cash Credit	Long Term	10.00	ACUITE BBB+ Stable (Reaffirmed)
11 Nov 2020	Cash Credit	Long Term	10.00	ACUITE BBB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	18.00	ACUITE A1 Upgraded (from ACUITE A2+)
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A Stable Upgraded (from ACUITE A-)
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A Stable Upgraded (from ACUITE A-)
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	19.00	ACUITE A1 Upgraded (from ACUITE A2+)
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	29.00	ACUITE A1 Upgraded (from ACUITE A2+)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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