

Press Release

Balajee Mini Steels & Re-rolling Private Limited

February 16, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 34.90 Cr.
Long Term Rating	ACUITE BBB+/Stable (Assigned)
Short Term Rating	ACUITE A2 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned 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 the Rs.34.90 Cr of bank facilities of Balajee Mini Steels & Re-rolling Private Limited (BMSRPL). The outlook is '**Stable**'.

The rating on BMSRPL takes into account the steady rise in the scale of operations of the Balmukund group backed by recent capacity expansions, established market position in the eastern India markets and the consistent improvement in its profitability margins while also maintaining a healthy financial profile. However, these strengths are partly offset by the working capital intensity in its operations and the cyclical nature of the steel industry.

Incorporated in 1987, Balajee Mini Steels & Re-rolling Private Limited was established by Mr. Nawal Kumar Kanodia and Mr. Abhishek Kanodia and is engaged in manufacturing of MS billet and TMT bar under the same brand of 'Balmukund Super TMT' and 'Balmukund 7 Star', with an installed capacity of 60000 MTPA for each respectively. It has its manufacturing facility located at Patna, Bihar.

About the group

Incorporated in 1999, Balmukund Sponge & Iron Private Limited (BSIPL) is the flagship company of the Balmukund Group. The company is engaged in manufacturing of sponge iron, MS Billet and TMT bars under the brand name of 'Balmukund Super TMT' and 'Balmukund 7 Star', with an installed capacity of 90000 MTPA of sponge iron, 120000 MTPA of MS billet, 37000 MTPA of pig iron and 100000 MTPA of TMT Bar. The company has its manufacturing facility located at Giridih, Jharkhand. Currently the company managed by Mr. Nawal Kumar Kanodia, Mr. Abhishek Kanodia, Mr. Pradeep Kumar Sahewal and Mr. Om Prakash Agarwal.

Incorporated in 2004, Balmukund Cement & Roofings Private Limited was established by Mr. Nawal Kumar Kanodia and Mr. Abhishek Kanodia and started commercial operation from 2013. The company is engaged in manufacturing of AC roofing sheets with an installed capacity of 118000 MTPA. It has its manufacturing facility located at Purulia, West Bengal.

Analytical Approach:

Acuite has consolidated the financial and business risk profile of Balmukund Sponge & Iron Private Limited, Balajee Mini Steels & Re-rolling Private Limited and Balmukund Cement & Roofings Private Limited. The group is herein being referred to as Balmukund Group. The same is on account of common management, common parent, financial linkages in terms of corporate guarantee and business linkages in the form of same distribution channel. Extent of consolidation: Full

Key Rating Drivers:

Strengths

Established track record of operation and experienced management

The group has a long execution track record of more than two decades in the iron and steel industry and is one of the leaders in the Bihar and Jharkhand market. The promoter of the group Mr. Nawal Kumar Kanodia, Mr. Abhishek Kanodia, Mr. Pradeep Kumar Sahewal and Mr. Om Prakash Agarwal possesses more than two decades of experience in the iron and steel industry. The group has a long presence in this sector and has

established a healthy relationship with customers for more than a decade. Acuite believes that the group will continue to benefit from its promoter's extensive industry experience and established relationship with customers over the near term.

Healthy scale of operation coupled with improving profit margin

The revenue of the group stood healthy at Rs.626.36 Cr in FY2020 as compared to Rs.550.19 Cr in the previous year. This improvement in the turnover levels of the group is mainly on account of increase in volume sales during the period despite of decrease in average realization due to sluggishness in overall iron and steel industry. The group has achieved revenues of Rs.487.10 Cr till 30th November in FY2020 (Provisional). The group has undertaken capital expenditure for increase in installed capacity of TMT bars to 100,000 MTPA from 50,000 MTPA and increase in MS billet capacity of the group to 1,20,000 MTPA from 75,000 MTPA in current year. Acuite believes that the group will maintain the growth momentum backed by capacity additions and improvement in sales realisations from H2FY'21.

The Balmukund group has constantly reported healthy profitability margins as reflected from the operating margins of 9.30 per cent in FY2020 as compared to 8.21 per cent in the previous year. This improvement in profitability is on account of decrease in raw material prices. The net profitability margin of the group also stood healthy at 3.10 per cent in FY2020 as compared to 1.87 per cent in the previous year. Acuite believes the profitability margin of the group will be sustained at current levels over the medium term on account of well-established position in the market of Bihar, Jharkhand and West Bengal.

Healthy financial risk profile

The financial risk profile of the group is marked by healthy net worth, low gearing and strong debt protection metrics. The net worth of the group stood healthy at Rs.167.88 Cr in FY2020 as compared to Rs 148.48 Cr in FY2019. This improvement in networth is mainly due to the retention of current year profit. Acuite has considered Rs.27.00 Cr of unsecured loan as quasi capital as the same amount is subordinated to bank debt. The gearing of the group stood low at 0.72 times as on March 31, 2020 when compared to 0.92 times as on March 31, 2019. This improvement in gearing is mainly on account of repayment of long term debt and improvement in networth of the company during the period. Interest coverage ratio (ICR) is healthy and stood at 2.67 times in FY2020 as against 2.17 times in FY 2019. The debt service coverage ratio (DSCR) of the company also stood healthy at 2.12 times in FY2020 as compared to 1.83 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.27 times in FY2020 as compared to 0.17 times in the previous year. Going forward, Acuite believes the financial risk profile of the group will remain healthy backed by no major debt funded capex plan over the medium term and steady net cash accruals.

Weaknesses

Working capital intensive nature of operation

The working capital intensive nature of operation of the group is marked by high gross current asset (GCA) days of 185 days in FY2020 as compared to 184 days in the previous year. The inventory holding period of the group has increased to 119 days in FY2020 as compared to 94 days in the previous year. This increase in inventory is due to inventory pile up of finished goods during the year end, which further coincided with the nation-wide lockdown. The high GCA days of the group also emanates from the high other current assets of Rs.91.42 Cr, which mainly consists of Rs.72.80 Cr of advance to suppliers and other advances to concerned authorities. The debtor days of the group stood comfortable at 24 days in FY2020 as compared to 37 days in the previous year. Moreover, the working capital facilities have been utilized on an average by 86 per cent for the last six months ended January 2021. Acuite believes that the ability of the group to manage its working capital operations efficiently will remain a key rating sensitivity.

Intense competition and inherent cyclicity in the steel industry

The steel industry is highly fragmented and unorganised. The group is exposed to intense competitive pressure from large number of organised and unorganised players along with its exposure to inherent cyclical nature of the steel industry.

Rating Sensitivity

- Ramp up in operations while maintaining their profitability margin
- Sustenance of their conservative capital structure
- Working capital management

Material Covenant

None

Liquidity Position: Healthy

The group has healthy liquidity marked by healthy net cash accruals of Rs.32.39 Cr as against only Rs.2.42 Cr long term debt obligations in FY2020. The cash accruals of the group are estimated to remain in the range of around Rs. 35.83 Cr to Rs. 49.21 Cr during 2021-23 as against Rs. 2.45 Cr of long term debt obligations per annum over the medium term. Further, the liquidity of the group is also strengthened by the unencumbered cash of Rs.2.22 Cr in FY2020. The current ratio of the group stood comfortable at 1.36 times in FY2020. However, the working capital management of the group is marked by Gross Current Asset (GCA) days of 185 days in FY2020. The bank limit of the group has been ~86 percent utilized during the last six months ended in January 2021. Moreover, the group has availed the loan moratorium till August 2020 and not availed any covid emergency fund. Acuite believes that the liquidity of the group is likely to be sustained over the medium term on account of healthy cash accruals and no major debt funded capex plans.

Outlook: Stable

Acuite believes that group's business risk profile is expected remain 'Stable' on the back of extensive promoter's experience in the iron and steel industry and healthy financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected improvement in accruals while sustaining their liquidity position. Further, the outlook may be revised to 'Negative' in case of a sharp decline in accruals, a decline in profitability margin or further elongation in the working capital cycle.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	626.36	550.19
PAT	Rs. Cr.	19.40	10.29
PAT Margin	(%)	3.10	1.87
Total Debt/Tangible Net Worth	Times	0.72	0.92
PBDIT/Interest	Times	2.67	2.17

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	370.41	348.58
PAT	Rs. Cr.	2.84	1.47
PAT Margin	(%)	0.77	0.42
Total Debt/Tangible Net Worth	Times	1.39	1.54
PBDIT/Interest	Times	2.71	2.28

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>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>
- Financial Ratios And Adjustments – <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto 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	Note Applicable	Note Applicable	Note Applicable	17.70	ACUITE BBB+/Stable (Assigned)
Term Loan	Jun 2017	9.50%	Jun 2022	4.70	ACUITE BBB+/Stable (Assigned)
Letter of Credit	Note Applicable	Note Applicable	Note Applicable	12.50	ACUITE A2 (Assigned)

Contacts:

Analytical	Rating Desk
Pooja Ghosh Head– Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in Abhishek Dey Rating Analyst Tel: 033-66201208 abhishek.dey@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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