



Press Release
Balajee Mini Steels & Re-rolling Private Limited
May 26, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	24.90	ACUITE BBB+ Positive Reaffirmed Stable to Positive	-
Total Outstanding Quantum (Rs. Cr)	24.90	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** on the Rs.24.90 Cr of bank facilities of Balajee Mini Steels and Re-rolling Private Limited. The outlook is revised to **'Positive'** from 'Stable'.

Rating Rationale

The revision in outlook factors in the significant improvement in the business risk profile of the group reflected its steady growth in turnover and profitability, apart from the sustenance in their healthy financial risk profile during FY2023 (Est.). The outlook revision also considers the improvement in the liquidity position of the group during the period.

The rating continues to reflect the group's long operational track record, integrated nature of operation, strong brand presence, and vast distribution network. The group has registered an improvement in operational performance during FY2023 (Est.) over FY2022 driven by an increasing average realization of steel products. The rating also considers the group's healthy financial risk profile, marked by healthy net worth, sound debt protection metrics and modest leverage ratios, and an adequate liquidity position during the period. However, these strengths are partially offset by the cyclical nature of the steel industry and the working capital intensive nature of its operations.

About Company

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', with an installed capacity of 60,000 MTPA for each respectively. It has its manufacturing facility located at Patna, Bihar.

About the Group

Incorporated in 1999 by Mr. Nawal Kumar Kanodia, Mr. Abhishek Kanodia, 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' with an installed capacity of 90,000 MTPA of sponge iron, 219200 MTPA of MS billet, 37,000 MTPA of pig iron and 246000 MTPA of TMT Bar. The company has its manufacturing facility located at Giridih, Jharkhand.

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 118,000 MTPA. It has its manufacturing facility located at Purulia, West Bengal.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité 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.

Key Rating Drivers

Strengths

Long track record of operation and experienced management-

The group has a long execution track record of 20 years 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 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.

Healthy scale of operation

The revenue of the group stood at Rs.889.64 crore in FY2022 as compared to Rs.760.69 crore in the previous year. This improvement in revenue of the group is mainly on account of an increase in average realization despite of decrease in volume sales during the period. Currently, the group has achieved a revenue of Rs.1448.04 crore till 31st March 2023 (Provisional). Moreover, this significant improvement in top-line of the group during FY23 (Provisional) is on account of improvement in volume sales backed by enhancement of existing capacity during the period coupled with a steady rise in the average realisation of rolled products. Acuité believes that the revenue of the group will increase on account of the increase in steady demand in the iron and steel industry in the domestic market.

Healthy financial risk profile'

The financial risk profile of the group is marked by healthy net worth, comfortable gearing, and strong debt protection metrics. The net worth of the group stood at Rs.178.52 crore in FY 2022 as compared to Rs 184.78 crore in FY2021. This decrease in net worth is mainly due to withdrawal of quasi capital from the business during FY2022. The gearing of the group stood comfortably at 1.00 times as on March 31, 2022, compared to 0.63 times as on March 31, 2021. This increase in overall gearing is on account of an increase in short term debt during the period. The interest coverage ratio (ICR) is strong and stood at 3.45 times in FY2022 as against 2.60 times in FY 2021. The debt service coverage ratio (DSCR) of the group also stood comfortably at 2.40 times in FY2022 as compared to 2.17 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortably at 0.18 times in FY2022 as compared to 0.24 times in the previous year. Going forward, Acuité believes the financial risk profile of the group will remain healthy on account of healthy net cash accruals over the near term and the absence of any debt funded capex plan.

Weaknesses

Declining profitability margin

The operating profitability margin of the company has declined and stood comfortably at 5.81 percent in FY2022 as compared to 6.47 percent in the previous year. This deterioration in profitability margin is on account of an increase in raw material prices backed by the global increase in iron and steel products during the period. Further, the operating profitability margin of the company has declined to 6.48 percent in FY2021 as compared to 9.30 percent in FY2020. This significant decrease in operating profitability is on account of increase in raw material prices and an increase in selling expenses in Balmukund Sponge and Iron Private Limited. The group was expanded to the new markets in Bihar and Jharkhand to utilise the

enhanced capacity of TMT bars during FY2021 resulting in an increase in commission and advertisement expenses during the same period. The operating profitability margin has also been impacted during FY21 on account of a decrease in consultation income in one of the group companies, i.e., Balmukund Cement and Roofing Pvt. Ltd. The group was providing services to government clients for procuring pipes till FY2021. Currently, the group has completely stopped providing consulting services.

However, the operating profitability margin of the group has improved to 6.30 percent in FY23 (Est.). This improvement in profitability is due to the group's ability to pass on its incremental raw material costs to its customers by reaching out to more geographical regions in Bihar and Jharkhand during the period.

The net profitability margin of the group stood at 2.33 percent in FY2022 as compared to 2.22 percent in the previous year.

Acuité believes the profitability margin of the group will improve over the medium term on account of its well-established position in the markets of Bihar, Jharkhand, and West Bengal.

Working capital intensive nature of operation

The working capital management of the group is marked by relatively high gross current asset (GCA) days of 108 days in FY2022 as compared to 126 days in FY2021. This improvement in GCA days is on account of a decrease in debtor days during FY2022. The inventory holding period of the group stood at 77 days in FY2022 as compared to 59 days in the previous year. The debtor days of the group stood comfortably at 07 days in FY2022 as compared to 24 days in the previous year. Going forward, Acuité believes working capital intensity will remain at similar levels over the medium term.

Rating Sensitivities

- Growth in scale of operations while maintaining operating profitability.
- Sustenance of their conservative capital structure
- Working capital management
- Any unplanned debt funded capex

Material Covenants

None

Liquidity Position: Adequate

The group has adequate liquidity marked by comfortable net cash accruals of Rs.31.37 crore as against Rs.3.91 crore long term debt obligations in FY2022. The cash accruals of the group are estimated to remain in the range of around Rs. 59.22 crore to Rs. 71.75 crore during 2023-24 as against Rs. 3.45 crore of long term debt obligation in FY2023 and in FY2024. The current ratio of the group stood moderate at 1.24 times in FY2022. The working capital intensive nature of the group is marked by relatively high Gross Current Asset (GCA) days of 108 days in FY2022. The bank limit of the group has been ~82 percent utilized during the last six months ended in March 2023. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accruals against long debt repayments over the medium term.

Outlook: Positive

Acuité believes that group has consistently improved the business risk profile of as reflected from its substantial increase in scale of operations and maintenance in profitability parameters. Moreover, the group has been able to maintain its healthy financial risk profile apart from its adequate liquidity position. The rating may be upgraded if the group sustains the growth momentum while maintaining operating profitability and the financial risk profile. Conversely, the outlook may be revised to 'Stable' in case of lower than anticipated revenues, deterioration in profitability metrics or deterioration in financial risk profile.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	889.64	760.69
PAT	Rs. Cr.	20.74	16.90
PAT Margin	(%)	2.33	2.22
Total Debt/Tangible Net Worth	Times	1.00	0.63
PBDIT/Interest	Times	3.45	2.60

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

None

Any Other Information

None

Applicable Criteria

- 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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
05 Apr 2022	Letter of Credit	Short Term	5.30	ACUITE A2 (Withdrawn)
	Term Loan	Long Term	4.70	ACUITE BBB+ (Withdrawn)
	Cash Credit	Long Term	24.90	ACUITE BBB+ Stable (Reaffirmed)
10 Mar 2022	Cash Credit	Long Term	24.90	ACUITE BBB+ Stable (Reaffirmed)
16 Feb 2021	Cash Credit	Long Term	17.70	ACUITE BBB+ Stable (Assigned)
	Letter of Credit	Short Term	12.50	ACUITE A2 (Assigned)
	Term Loan	Long Term	4.70	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
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	24.90	ACUITE BBB+ Positive Reaffirmed Stable to Positive

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Abhishek Dey Senior Analyst-Rating Operations Tel: 022-49294065 abhishek.dey@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

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. Ratings assigned by Acuité 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. Ratings assigned by Acuité 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.