

Press Release

Tirumala Balaji Alloys Private Limited

September 08, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.30.00 Cr.
Long Term Rating	ACUITE BBB/ Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs.30.00 Cr bank facilities of Tirumala Balaji Alloys Private Limited (TBAPL). The outlook is '**Stable**'.

The rating on TBAPL takes cognizance of the healthy business risk profile of the company marked by long track record, experienced management and a long term agreement with Tata Steel Mining Limited (TSML), a wholly owned subsidiary of Tata Steel Limited. Further, the rating also draws comfort from the comfortable financial risk profile and adequate liquidity position of the company. These strengths are however, partly offset by the working capital intensity in the operations and highly fragmented nature of the industry.

About the company

Incorporated in 2004, Tirumala Balaji Alloys Private Limited (TBAPL) is a Raigarh, Chhattisgarh based company engaged in the production of high carbon ferro chrome and other ferro alloys. The company has three submerged arc furnaces of 9 MVA each, with a total installed capacity of 43,000 MTPA, which was recently expanded from 23,000 MTPA and began commercial operations from February 2021. The company is currently headed by Mr. Manish Rungta and Mr. Manoj Kumar Baheti. The company has an offtake agreement with Tata Steel Mining Limited (TSML) of 43,000 MTPA which is valid till Mar, 2025.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of TBAPL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management and established relationships**

TBAPL's board comprises of Mr. Manish Rungta and Mr. Manoj Kumar Baheti, who look after the day to day operations of the company supported by a team of qualified professionals. The directors have around two decades of experience in the ferro alloys manufacturing industry. In addition, the company has a long-standing relationship with TSML, a wholly owned subsidiary of Tata Steel Ltd. for around 15 years, marked by a third time renewal of long term agreement with current minimum offtake clause for 43,000 MTPA which provides consistent revenue visibility and mitigates the counter party risk. Further, TBAPL has established terms with reputed players like Jindal Steel & Power Limited, Odisha Mining Corporation Limited, AIA Engineering Limited, B C Mohanty & Sons Pvt. Ltd. and more since over a decade. Acuité believes the long track record, experienced management, healthy relationships and an offtake agreement with Tata Steel Mining Ltd., will continue to support the business, going forward.

- Healthy business risk profile buoyed by capacity expansion**

TBAPL usually earns around 80 per cent of its revenue from conversion for TSML and remaining from its own production. The company has achieved a revenue of Rs.159.24 Cr till March, 2021 (Provisional) as against Rs.106.69 Cr in FY2020 and Rs.119.20 Cr in FY2019, thereby registering a two year CAGR of 15.59 per cent from FY19-21. The increase in top line is due to enhancement in the installed capacity from 28,000 MTPA to 43,000 MTPA in February, 2021. The provisional revenue till mid-Aug'21 stood at around Rs.90 Cr. The major cost component is power cost which is acquired from Jindal Steel and Power Limited, as major raw materials are

provided by TSML along with transportation cost covered.

The operating margin of the company improved to 10.79 per cent in FY2021 (prov.) as compared to 6.70 per cent in the previous year. The EBITDA margin improved as high proportion of sales was made in the open market since the enhanced agreement with TSML was in progress. The RoCE levels stood at a comfortable level of 17.70 per cent in FY2021 (prov.) as against 13.29 per cent in FY2020. Acuité believes with enhancement in the capacity and long term agreement with TSML, the company's scale of operations will improve over the medium term.

- **Comfortable financial risk profile**

The company's comfortable financial risk profile is marked by healthy networth, comfortable gearing and robust debt protection metrics. The tangible net worth of the group stood at Rs.45.52 Cr as on 31st March, 2021 (provisional) as compared to Rs.55.61 Cr as on 31st March, 2020. The reduction in networth is due to incidence of tax liability of Rs.20.39 Cr on undisclosed income of Rs.35.68 Cr from FY12-FY19 by the Income Tax Settlement Commission (ITSC), Kolkata. Gearing stood below unity at 0.73 times as on 31st March, 2021 (prov.) as compared to 0.50 times as on 31st March, 2020. The debt of Rs.33.14 Cr comprises of preference share capital of Rs.13.50 Cr, long term borrowings of Rs.12.65 Cr out of which Rs.4.71 Cr is Covid loan, working capital borrowing of Rs.3.86 Cr and current portion of long term debt repayment of Rs.3.13 Cr as on 31st March, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.39 times as on 31st March, 2021 (prov.) as compared to 104 times in the previous year. The robust debt protection metrics of the company is marked by Interest Coverage Ratio at 34.19 times and Debt Service coverage ratio at 9.34 times as on 31st March, 2021 (prov.). The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.49 times as on 31st March, 2021 (prov.) from 0.38 times as on 31st March, 2020. Acuité believes that going forward the financial risk profile of the group will be sustained backed by steady accruals and no major debt funded capex plans.

Weakness

- **Moderately intensive working capital cycle**

The working capital cycle is moderately intensive marked by Gross Current Assets (GCA) of 99 days in FY2021 (provisional) as compared to 133 days in FY2020. The reduction GCA days are mainly on account of reduction in the other current assets due to realisation of advances to related parties / inter corporate deposits. The debtor period stood at 128 days as on March 31, 2021 (prov.) as compared to 202 days as on 31st March 2020. Further, the inventory period stood at comfortable at 13 days as on March 31, 2021(prov.) as compared to 43 days in FY20. Going forward, Acuité believes that the working capital management of the company will remain intensive as evident from the high amount of inter corporate deposits historically.

- **Highly fragmented and intensely competitive industry**

The Ferro Alloys industry is marked by the presence of a large number of organized and unorganized players owing to low entry barriers. The company faces intense competition from the presence of several mid to large-sized players in the said industry. The presence of a large number of players has a direct impact on pricing, restricts bargaining power having an adverse impact on margins.

Rating Sensitivity

- Improvement in the scale of operations while sustaining its profitability margins
- Elongation in working capital cycle

Material Covenant

None

Liquidity Profile: Adequate

The company's liquidity position is adequate marked by healthy net cash accruals of Rs.16.20 Cr in FY2021 (provisional) as against a long term debt repayment of Rs.1.22 Cr over the same period. The fund based limit remained utilised at about 20 percent over the seven months ended May, 2021. The current ratio stood comfortable at 1.77 times as on 31st March, 2021 (provisional) as compared to 1.78 times as on 31st March, 2020. The cash and bank balances of the company stood at Rs.0.20 Cr in FY2021 (provisional) as compared to Rs.0.69 Cr in FY2020. However, the company availed a Covid loan of Rs.4.71 Cr and a loan moratorium. The company's working capital intensive nature of operations is reflected from Gross Current Assets (GCA) of 99 days in FY2021 (prov.) as compared to 133 days in FY2020. Acuité believes that going forward the liquidity position of the company will improve due to steady cash accruals.

Outlook: Stable

Acuité believes that the outlook on TBAPL will remain 'Stable' over the medium term on account of the experience of the promoters, long track record of operations and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher-than expected growth in its revenue and profitability while improving its networth base. Conversely, the outlook may be revised to 'Negative' in case of any significant elongation in its working capital management leading to deterioration of its liquidity position.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	159.24	106.69
PAT	Rs. Cr.	10.80	7.95
PAT Margin	(%)	6.78	7.45
Total Debt/Tangible Net Worth	Times	0.73	0.50
PBDIT/Interest	Times	34.19	24.12

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

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

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Cash Credit*	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/Stable (Assigned)
State Bank of India	Term Loan	1 Sept, 2019	8.60%	31 Mar, 2026	12.00	ACUITE BBB/Stable (Assigned)
State Bank of India	WCDL-CCECL	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB/Stable (Assigned)
State Bank of India	WCTL-GECL	Not Applicable	Not Applicable	Not Applicable	3.71	ACUITE BBB/Stable (Assigned)
State Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3+ (Assigned)
Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.29	ACUITE BBB/Stable (Assigned)

* One-way interchangeability from CC to BG limits by Rs.1.00 Cr and from CC to LC limits by Rs.5.00 Cr

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About Acuité Ratings & Research:

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