

Baroda Hi-Tech Alloys Private Limited

April 04, 2022

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	2.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	7.50 (Enhanced from 5.50)	CARE A3+ (A Three Plus)	Reaffirmed
Short Term Bank Facilities	-	-	Withdrawn [^]
Total Bank Facilities	9.50 (Rs. Nine Crore and Fifty Lakhs Only)		

Details of facilities in Annexure -1; ^ Reclassification of limit

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Baroda Hi-Tech Alloys Private Limited (BHAL) continue to derive comfort from financial risk profile marked by healthy profit margins, comfortable capital structure and debt coverage indicators along with adequate liquidity position. The ratings further, continue to derive strength from experienced promoters in the casting industry along with reputed clientele.

The above strengths are partially offset by growing albeit moderate scale of operations during FY21 (FY refers to period from April 1 to March 31) as well as 10MFY22 coupled with its presence in highly competitive and fragmented casting industry along with susceptibility of profit margins to volatility in raw material prices and foreign exchange rate fluctuations.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Growth in its scale of operations backed by increase in capacity utilization with a PBILDT margin of more than 15% on a sustained basis
- Managing its working capital efficiently with improvement in working capital cycle to less than 50 days

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Significant decline in scale of operations along with decline in PBILDT margin below 8%
- Higher than envisaged debt leading to deterioration in capital structure with above unity overall gearing
- Elongation of operating cycle to more than 90 days on a sustained basis leading to high reliance on working capital borrowings and stretched liquidity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

The company is promoted by Mr. P N Mohanan, Director, having more than three decades of experience in production and marketing of castings. Ms. Deepa P Mohanan, Director of company also holds healthy experience of more than two decades in casting industry. Vast experience of promoters has led to strong relationship with customers as well as suppliers.

Reputed Clientele

The company sells its casting products through direct sales to major companies in industries like Aggregates (Crushing Industry), Valves, Cement, Chemicals, Mining, Engineering etc. Major customers of BHAL include Sandvik Group (Sandvik Asia Pvt. Ltd., and Sandvik Mining & Construction Logistic, Sweden) which is a leading player in mining tools and construction tools industry, and gives repeat orders for castings to BHAL. Other major buyers include Metso India Pvt. Ltd., Ahmedabad, Hailstone Innovations Pvt. Ltd., Thrissur, Pyrotek India Pvt. Ltd, Pune, Milacron India Pvt. Ltd., Ahmedabad etc. All the customers are reputed players in mining and construction tools industry, from whom, BHAL generally gets regular orders.

Healthy profitability

During FY21, profitability remained stable and healthy marked by its PBILDT margin and PAT margin of 14.59% and 8.84% respectively [PY: 15.05% and 8.46% respectively]. Further, income tax expense of Rs.1.84 crore in FY21 (FY20: Rs.1.98 crore; FY19: Rs.3.30 crore) which were not reported in profit & loss statements of respective years are considered for purpose of analysis in congruence with ITR.

Comfortable capital structure and debt coverage indicators

Capital structure of BHAL continued to remain comfortable as marked by overall gearing ratio of 0.32 times as on March 31, 2021 [0.38 times as on March 31, 2020]. TOL/TNW continue to remain comfortable at 0.71 times as on March 31, 2021 [PY:

¹Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE publications

0.64 times as on March 31, 2020]. BHAL has installed a captive solar rooftop power plant (capacity: 250 KW) with total cost of Rs.0.95 crore in H1FY22 and the same was funded through term loan of Rs.0.50 crore and balance by internal accruals. Moreover, the company has issued bonus share (Nos. 19.99 crore with face value of Rs.10/-) to its existing promoter shareholders, however, net effect on net worth base remained nil.

During FY21, debt coverage indicators of BHAL improved over the previous year on the back of increased profit in tandem with TOI and continued to remain comfortable marked by interest coverage ratio of 22.31 times [PY: 10.80 times] and Total Debt / GCA of 1.74 times [PY: 2.13 times] in year ended on March 31, 2021.

Key Rating Weaknesses

Growing albeit moderate scale of operations

BHAL's total operating income (TOI) grew by around 13% y-o-y, though it continued to remain moderate at Rs.71.86 crore [PY:63.45 crore] on the back of increased capacity as a result of successful completion of expansion project in FY21 with increase in orders for execution in FY21. Subsequently, it further grew to Rs.105.35 crore in 10MFY22 (UA) with increased demand and better utilization of increased capacity.

Presence in highly competitive and fragmented industries

The products sold by BHAL are generally used by Aggregate industry (Crushing Industry), Valves Industry, Cement Industry, Chemical Industry, Mining Industry, and Engineering Industry, which are inherently vulnerable to economic cycles. The slowdown in these industries may adversely affect the business operations of the company. Furthermore, international crisis and economic conditions also play important role for the business operations of BHAL as it generates around 59% of income in FY21 from export sales. Moreover, entry barriers to the industry are very low which result into very low pricing power and high competition amongst the players and due to which profitability always remains vulnerable.

Susceptibility of profit margins to volatility in raw material prices and foreign exchange rate fluctuations

The major raw materials for manufacturing castings are Steel scrap and Ferro alloys, the prices of which have shown fluctuations during the past few years due to volatility in the global commodity markets. Further, the company exports the castings mainly to countries like Sweden, USA and UK, while import portion is negligible, making it a net exporter. The company does not have any active hedging policy which exposes its profit margins to fluctuations in foreign exchange rates. BHAL registered forex gain of Rs.0.15 crore during FY21 as against forex gain of Rs.0.39 crore during FY20.

Liquidity: Adequate

BHAL's liquidity position remained adequate marked by its moderate cash accruals against low scheduled repayment obligations, low utilization of its working capital limits, moderate cash flow from operations (CFO) and liquidity ratio.

Current ratio of the company remained moderate at 1.52 times as on March 31, 2021 while CFO remained at Rs.4.82 crore in FY21 as against Rs.9.59 crore in FY20 owing to increase in inventory and receivables as on March 31, 2021 with increased capacity. BHAL is expected to generate cash accruals of Rs.6 to 10 crore in near term as against low scheduled debt repayment of around Rs.1.50-2.00 crore. Furthermore, operating cycle of the company continued to remain moderate and in line with previous year at 66 days in FY21. Average fund-based working capital limit utilization remained low at 28% in last twelve months ended in January, 2022.

Analytical approach: Standalone

Applicable criteria:

[Policy on Withdrawal of ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial Ratios - Non-Financial Sector](#)

[Criteria for short term instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

Baroda (Gujarat)-based BHAL (CIN: U27310GJ1999PTC036756) was incorporated in October, 1999 by Mr. P N Mohanan. Mr. P N Mohanan has experience of more than three decades in casting industry. The company is engaged in castings of steel and alloys and sells its products directly to other domestic companies across India as well as to export markets.

Brief Financials (in Rs. crore)	FY20 (A)	FY21 (A)	10MFY22 (UA)
Total operating income	63.45	71.86	105.35
PBILDT	9.56	10.48	NA
PAT*	5.37	6.36	NA
Overall gearing (times)	0.38	0.32	NA
PBILDT Interest coverage (times)	10.80	22.31	NA

A: Audited; UA: Unaudited; NA: Not Available; * Income tax expense of Rs.1.83 crore for FY21 (Rs.1.98 crore during FY20) which were not reported in profit & loss statements of respective years have been considered for purpose of analysis in congruence with ITR (shared by the client).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	2.00	CARE BBB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Bank Guarantee	-	-	-	-	2.00	CARE A3+
Fund-based - ST-Packing Credit in Indian rupee	-	-	-	-	5.50	CARE A3+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	2.00	CARE BBB; Stable	1)CARE BBB; Stable (01-Apr-21)	1)CARE BBB; Stable (02-Apr-20)	1)CARE BBB; Stable (04-Apr-19)	1)CARE BBB; Stable (05-Apr-18)
2	Non-fund-based - ST-Letter of credit	ST	-	-	1)CARE A3+ (01-Apr-21)	1)CARE A3+ (02-Apr-20)	1)CARE A3+ (04-Apr-19)	1)CARE A3+ (05-Apr-18)
3	Non-fund-based - ST-Bank Guarantee	ST	2.00	CARE A3+	1)CARE A3+ (01-Apr-21)	1)CARE A3+ (02-Apr-20)	1)CARE A3+ (04-Apr-19)	1)CARE A3+ (05-Apr-18)
4	Fund-based - ST-Packing Credit in Indian rupee	ST	5.50	CARE A3+	1)CARE A3+ (01-Apr-21)	1)CARE A3+ (02-Apr-20)	1)CARE A3+ (04-Apr-19)	1)CARE A3+ (05-Apr-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated facilities:

Bank Facilities	Detailed explanation	
A. Financial covenants	BHAL to maintain followings:	
	Covenant	Threshold
	Current Ratio	>=1.33
	TOL/TNW	<=4
B. Non financial covenants		
	1. Pledged of promoter's shares	

Annexure-4: Complexity level of various instruments rated for this Company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Packing Credit in Indian rupee	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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