

Baroda Hi-Tech Alloys Private Limited

April 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	2.00	CARE BBB; Stable	Reaffirmed
Short Term Bank Facilities	2.20	CARE A3+	Assigned
Short Term Bank Facilities	9.50 (Enhanced from 7.50)	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Baroda Hi-Tech Alloys Private Limited (BHAL) continue to derive comfort from experienced promoters in the casting industry along with its reputed clientele. The ratings also take into consideration improvement in profitability margins, comfortable capital structure and debt coverage indicators along with adequate liquidity position.

The above strengths are partially offset by growing albeit moderate scale of operations during FY23 (FY refers to period from April 1 to March 31) as well as 10MFY24 (provisional; 10MFY24 refers to period from April 01 to January 31) 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: Factors likely to lead to rating actions

Positive factors

- Significant growth in its scale of operations marked by TOI of Rs.200 crore backed by increase in capacity utilization with sustaining PBILDT margin of more than 15%
- Sustaining comfortable capital structure marked by overall gearing below 0.20 times and comfortable liquidity position marked by operating cycle below 40 days

Negative factors

- Significant decline in scale of operations with TOI falling below 100 crore with decline in PBILDT margin below 8% on sustained basis
- 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 position of BHAL

Analytical approach: Standalone

Outlook: Stable

The outlook on the long-term rating of BHAL is 'Stable' considering stable demand of casting products coupled with long track record of the company and benefits of increased production capacity would enable the company to sustain its operational performance over the medium term.

Detailed description of the key rating drivers:

Key strengths

Experienced Promoters in the casting industry

BHAL 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. The management is supported by tier II staff. Further, vast experience of promoters has led to strong relationship with customers as well as suppliers.

Reputed Clientele

BHAL's deals on B2C basis to reputed 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. All the customers are reputed players in mining and construction tools industry, from whom, BHAL generally gets regular orders.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Healthy profitability

During FY23, profitability of the company marked by PBILDT margin improved over the previous year by 363 bps on y-o-y basis and continue to remain healthy at 16.68%. The improvement is mainly owing to better gross margins. Consequently, PAT margin also improved by 376 bps on y-o-y basis and remained at 10.21% in FY23 as against 6.44% in FY22. Further, BHAL had strong return indicators marked by capital employed (ROCE) and return on networth (RONW) at 35.65% and 27.47% respectively.

Comfortable capital structure and debt coverage indicators

The capital structure of BHAL improved and continue to remain comfortable as marked by overall gearing ratio of 0.01x as on March 31, 2023, as against 0.20x as on March 31, 2022, mainly owing to repayment of term loan and low working capital utilisation. In FY24, the capital structure is expected to remain comfortable despite set up of new plant as funding is done through internal accruals and sale consideration of old plant. The tangible net worth base of company augmented on the back of accretion of profits into reserves and continue to remain moderate at Rs.69.99 crore as on March 31, 2023. TOL/TNW continue to remain comfortable at 0.71x as on March 31, 2023. During FY23, debt coverage indicators of BHAL improved marginally 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 26.08x (P.Y.:24.25x) and total debt to gross cash accruals of 0.04x years ended on March 31, 2023.

Key weaknesses

Growing albeit moderate scale of operations

Over the past five years ended FY23, BHAL's revenue grew at a healthy CAGR of 20.97%. Further, during FY23, BHAL's TOI grew by ~23% on y-o-y basis, however, it continued to remain moderate at Rs.165.63 crore (PY: Rs.134.65 crore). The growth was led mainly by both increase in sales realisation as well as sales volume in FY23. Further, during FY24 BHAL sold one of its two plants in October 2023 and commenced operations of new plant in January 2024. Despite disruption of operations for 2-3 months, it has achieved TOI of Rs.111 crore in 10MFY24 and for FY24, it expects to achieve TOI in similar line with FY23.

Presence in highly competitive and fragmented casting industry

BHAL's products find application in 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 39% of income in FY23 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 low, making it a net exporter. BHAL does not have any active hedging policy which exposes its profit margins to fluctuations in foreign exchange rates. BHAL registered forex gain of Rs.0.27 crore during FY23 as against Rs.0.73 crore during FY22.

Liquidity: Adequate

BHAL's liquidity position remained adequate marked by its moderate cash accruals against low debt repayment obligations, moderate utilization of its working capital limits, moderate cash flow from operations (CFO) and liquidity ratios. The current ratio of the company remained moderate at 1.35x as on March 31, 2023, as against 1.74x as on March 31, 2022. Further, CFO improved over the previous year and remained at Rs.22.97 crore in FY23 (PY: Rs.13.84 crore) mainly owing to increase in creditors and accretion of moderate cash accruals. Further, BHAL is expected to generate gross cash accruals of Rs.15-20 crore as against scheduled debt repayment of below Rs.1 crore during the projected period. Furthermore, the operating cycle of the company improved and remained at 22 days in FY23 as against 39 days in FY22 on account of liquidation of inventory levels. Unencumbered cash and bank balance of the company remained at Rs.1.06 crore as on March 31, 2023 (PY: Rs.2.57 crore). Average and maximum fund-based working capital limit utilization remained low at 2% and 53% in past twelve months ended in February 2024.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Iron & Steel](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Castings & Forgings

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 manufacturing of castings of steel and alloys with installed capacity of 31,200 metric ton per annum (MTPA) as on March 31, 2023, and sells its products directly to other domestic companies across India as well as to export markets.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	10MFY24 (Prov.)
Total operating income	134.65	165.63	111.26
PBILDT	17.57	27.63	NA
PAT	8.67	16.90	NA
Overall gearing (times)	0.20	0.01	NA
Interest coverage (times)	24.25	26.08	NA

A: Audited; Prov.: Provisional; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	2.00	CARE BBB; Stable
Fund-based - ST-Packing Credit in Indian rupee	-	-	-	-	7.50	CARE A3+
Non-fund-based - ST-Bank Guarantee	-	-	-	-	2.00	CARE A3+
Non-fund-based - ST-Credit Exposure Limit	-	-	-	-	2.20	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT	2.00	CARE BBB; Stable	1)CARE BBB; Stable (05-Apr-23)	1)CARE BBB; Stable (04-Apr-22)	1)CARE BBB; Stable (01-Apr-21)	1)CARE BBB; Stable (02-Apr-20)
2	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)Withdrawn (04-Apr-22)	1)CARE A3+ (01-Apr-21)	1)CARE A3+ (02-Apr-20)
3	Non-fund-based - ST-Bank Guarantee	ST	2.00	CARE A3+	1)CARE A3+ (05-Apr-23)	1)CARE A3+ (04-Apr-22)	1)CARE A3+ (01-Apr-21)	1)CARE A3+ (02-Apr-20)
4	Fund-based - ST-Packing Credit in Indian rupee	ST	7.50	CARE A3+	1)CARE A3+ (05-Apr-23)	1)CARE A3+ (04-Apr-22)	1)CARE A3+ (01-Apr-21)	1)CARE A3+ (02-Apr-20)
5	Non-fund-based - ST-Credit Exposure Limit	ST	2.20	CARE A3+				

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the 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-Credit Exposure Limit	Simple

Annexure-5: Lender detailsTo view the lender wise details of bank facilities please [click here](#)

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

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