Bala Industries

December 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	15.00 (Enhanced from 14.00)	CARE B+; Stable	Downgraded from CARE BB-; Stable
Short Term Bank Facilities	16.40 (Reduced from 20.00)	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has taken a combined view of Bala Industries (BI) and Paramount Industries (PI) while assessing the credit risk profile, as both the entities are in a similar line of business and operate under the same management.

The revision in rating assigned to the bank facilities factors in the decline in total operating income (TOI) attributable to slow work order movement, elongation in collection period and deterioration of capital structure.

The rating assigned to the bank facilities of BI is tempered by small scale of operations which are largely tender driven, concentrated customer profile, moderate profitability margins, susceptibility of margins to raw material prices and intense competition from the fragmented industry. However, the ratings continue to derive benefit from the extensive experience of the promoter along with the firm's established track record of operations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in scale of operations on a combined level to above ₹75.00 crore and profit before interest, lease rentals, depreciation and taxation (PBILDT) margins above 10%.
- Improvement in operating cycle to below 150 days.

Negative factors

- Deterioration in collection period and weakening of liquidity profile.
- Increase in leverage with combined gearing exceeding 4.50x.
- Withdrawal of capital leading to sharp deterioration of capital structure.

Analytical approach: Combined

CARE Ratings has taken combined approach for analysing the group entities BI and PI as both the entities have common promoters and are engaged in the assembling and supply of transformers.

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believe that the entities will continue to benefit from its long track record of operations and experience of the promoters in the same line of business.

Detailed description of key rating drivers:

Key weaknesses

Small scale of operations and moderate profitability:

The combined scale of operations of the entities had moderated to ₹43.01 crore in FY24 (refers to the period April 01 to March 31) against ₹79.57 crore in FY23. This is due to slow work order movement and dependence on a single client for its revenue. The PBILDT margin However, remained stable between 7% to 8% over the last few years and improved to 11.72% in FY24 against 7.26% in FY23 aided by decrease in raw material prices. In 8m FY25 (refers to the period April 01 to November 30) the combined turnover of the entities stood at ₹29.05 crores.

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

Moderate capital structure and capital withdrawal risk:
Against the moderate net worth base of ₹8.33 crore as on March 31, 2024, the entities have externally borrowed ₹31.47 crore making the overall gearing deteriorate to 3.78x. Further, the firms being partnership concerns by constitution, they are exposed to the inherent risk of capital withdrawal by the partners due to personal exigencies as indicated from the withdrawal trend over the past years.

Concentrated customer profile in a competitive industry:
Firms derive nearly 99% of their revenue by supplying the transformers to TANGEDCO, making the operations entirely tender driven. The transformer market in India is predominantly unorganized with many small participants catering to the scattered distribution markets making it highly competitive and price sensitive. As revenue visibility is entirely tender based, the incumbent players have less advantage due to aggressive bidding from the players seeking entry in the market leading to pressured margins.

Susceptibility of margins to volatile raw material prices:
The raw material cost accounts for nearly 85-90% of the overall cost structure of the entities over the years and the execution period of the tender usually ranges between 1-1.5 years. The prices of key raw materials, mainly steel and copper, usually exhibit price volatility which might lead to further moderation in profit margins. However, the entities follow mostly order-backed procurement policy and price escalation clause mitigate the risk of adverse raw material cost movement to a great extent. The PBILDT margin has been varying in the range of 7.26% to 11.72% over the past four years ended FY24.

Key strengths

Established track record of operations:
Both BI and PI have been manufacturing transformers since 1997 and 2007 respectively and have more than two decades of association with TANGEDCO. They can manufacture up to 3000 BIS certified distribution transformers ranging between 16 KVA to 630 KVA and the entities undertake winding, core construction, assembly, and testing of the transformers in house.

Experienced promoters:
BI & PI are promoted by S.A. Arutchelvan along with his spouse Anuradha and other family members. Day-to-day operations of both the firms are managed by Arutchelvan, who has been in the same line of business for more than 3 decades and has been instrumental in driving the business operations since the inception of both the entities.

Liquidity: Stretched
The operating cycle had stretched to 178 days in FY24 (PY: 59 days) largely due to the delay in collections from TANGEDCO. The average working utilization was at 90% for the 12-month ended November 2024. The free cash balance held as on March 31, 2024, was at ₹0.07 crore. For FY25 the gross cash accrual stood stretched against the term loan repayments indicating the stretched liquidity position of the firms.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Electrical Equipment	Heavy Electrical Equipment

BI is a partnership firm which was formed during 1997. The firm is engaged in manufacturing customized 'Distribution Transformers' with varying capacities between 16 KVA to 630 KVA from their facilities at Chennai. Day to day operations of both the firms are managed by S. A. Arutchelvan.

Financial Performance (Combined financials of BI and PI):

Brief Financials (₹ crore)	31-03-2023 (A)	31-03-2024 (A)	8m FY25 (P)
Total operating income*	79.57	43.01	29.05
PBILDT	5.78	5.04	NA
PAT	2.25	0.86	NA
Overall gearing (times)	2.51	3.78	NA
Interest coverage (times)	1.69	1.32	NA

A: Audited P: Provisional NA: Not Available; Note: the above results are latest financial results available'
*TOI calculated after netting off intercompany transaction.

Financial Performance (Standalone financials of BI):

Brief Financials (₹ crore)	31-03-2023 (A)	31-03-2024 (A)	8m FY25 (P)
Total operating income	40.77	26.48	16.00
PBILDT	2.72	2.90	NA
PAT	1.16	0.76	NA
Overall gearing (times)	1.32	4.61	NA
Interest coverage (times)	1.79	1.38	NA

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

Status of non-cooperation with previous CRA:

- Acuite Ratings and Research Limited (Acuite) has conducted a review based on the best available information and has classified BI as "non-cooperative" vide its press release dated June 26, 2024. The reason provided by Acuite is the non-furnishing of information for monitoring of rating.

- CRISIL Ratings Limited (CRISIL) has conducted a review based on the best available information and has classified BI as "non-cooperative" vide its press release dated May 29, 2024. The reason provided by CRISIL is the non-furnishing of information for monitoring of rating.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	5.00	CARE B+; Stable
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	16.40	CARE A4
Non-fund-based - LT-Bank Guarantee		-	-	-	10.00	CARE B+; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	5.00	CARE B+; Stable	-	1)CARE BB-; Stable (30-Nov-23)	1)CARE BB-; Stable (04-Jan-23)	-
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	16.40	CARE A4	-	1)CARE A4 (30-Nov-23)	1)CARE A4 (04-Jan-23)	-
3	Non-fund-based - LT-Bank Guarantee	LT	10.00	CARE B+; Stable	-	1)CARE BB-; Stable (30-Nov-23)	1)CARE BB-; Stable (04-Jan-23)	-

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
3	Non-fund-based - LT-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

Contact us

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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