

Rating Rationale

February 14, 2023 | Mumbai

Balu Forge Industries Limited

Ratings reaffirmed at 'CRISIL BBB-/Stable/CRISIL A3'

Rating Action

Total Bank Loan Facilities Rated	Rs.76 Crore
Long Term Rating	CRISIL BBB-/Stable (Reaffirmed)
Short Term Rating	CRISIL A3 (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL BBB-/Stable/CRISIL A3' ratings on the bank facilities of Balu Forge Industries Limited (BFIL).

The rating reflects BFIL's established market position in the crankshaft manufacturing industry and above-average financial risk profile. These strengths are partially offset by susceptibility to volatility in raw material prices and large working capital cycle.

Analytical Approach

For arriving at the rating of BFIL, the team has consolidated the business and financial risk profiles of Balu Forge Industries Ltd and its subsidiaries Naya Energy Works Pvt Ltd and Balu advanced technologies & Systems Pvt Ltd which are strategically important to, and have a significant degree of operational integration with Balu Forge Industries Ltd. CRISIL Ratings considers these entities as being strategic to Balu Forge Industries Ltd in view of their strong integration with BFIL's operations.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Established market position: Mr. Chandock has an overall experience of more than 30 years in the same line of business. Over the period, he and other professional qualified staff has helped the company establish its presence across 80 countries. This has enabled the company to diversify its product portfolio thus increasing its operating income to Rs. 275 crores in fiscal 2022. BFIL will continue to benefit from its promoters' extensive industry experience over the medium term.

Above average financial profile: Despite high dependence on outside borrowings for capital expenditure and working capital requirements, the capital structure is comfortable with gearing and Total outside liabilities to adjusted net worth of 0.37 times and 0.99 times, respectively, as on March 31, 2022. Gearing and Total outside liabilities to adjusted net worth are expected to remain around 0.2 to 0.4 times and 0.6-0.9 times over the medium term 0.44 times and 0.97 times as on March 31, 2022. Debt protection metrics have been healthy with interest coverage and net cash accruals to adjusted debt of 8.71 times and 0.66 times for Fiscal 2022. Overall financial risk profile is expected to remain above average over the medium term backed by healthy accretion to reserves.

Weaknesses:

Susceptibility to volatility in raw material costs: Because of volatility in the price of major raw material- steel and aluminum, the operating margin remain susceptible to these volatilities. The ability of players to pass on input cost increases or retain any benefit of lower input costs is constrained due to intense competition. While Balu forge industries Ltd is able to pass on price increase to customers, any significant movement in the price of raw material and a lag in passing on price fluctuations to customers can impact profitability.

Large working capital cycle: Working capital cycle continues to remain large with Gross Current Asset (GCA) of 299 days as on March 31, 2022. The company provides a credit period of 150-180 days to its customers due to business requirements and maintains an inventory of 60-80 days due to diversified product portfolio. High working capital requirements have led to high bank limit utilization of around 98% over the last 12 months ended Nov 22. Operations are expected to remain working capital intensive over the medium term and hence remains key monitorable.

Liquidity: Adequate

BFIL has adequate liquidity driven by expected cash accruals of Rs. 42 and Rs 46 crores annually in fiscal 2024 and fiscal 2025 against repayment obligations of Rs 1.3 crores and Rs 3.7 crores in Fiscal 2024 and 2025. Bank limits utilization was high at around 98% for the last 12 months ended Sep 22. Cash and cash equivalents were Rs. 5.9 crores as on Sep 30, 2022. CRISIL Ratings expects internal accruals, cash & cash equivalents and unutilized bank lines to be sufficient to meet its repayment obligations and incremental working capital requirements.

Outlook: Stable

CRISIL Ratings believes BFIL's business and financial risk profile will continue to remain stable over the medium term backed by established market position of the company.

Rating Sensitivity factors

Upward factors

- Improvement in working capital cycle with Gross current asset days coming below 250 days
- Bank limit utilization coming below 90%

Downward factors

- Sizeable stretch in working capital cycle, with gross current assets rising above 350 days
- Deterioration in financial risk profile due to debt funded capex

About the Company

Balu India was set up in 1989 by Mr. Prehlad Singh Chandok as a proprietary firm. In August 2020 it was acquired by Amaze Intertech Limited and converted into a listed entity by the name Balu Forge Industries Ltd. It is based in Mumbai and has its manufacturing type of crankshaft in a large range of applications namely Automotive, Agricultural, Marine & Industrial in Karnataka. It is listed on Bombay Stock exchange and promoted by Mr Jaspal Singh Chandok, Mr Trimaan Chandok and Mr Jaikaran Chandok who look after overall business operations of the company.

Key Financial Indicators

As on / for the period ended March 31		2022	2021
Operating income	Rs crore	284.42	139.85
Reported profit after tax	Rs crore	30.44	7.62
PAT margin	%	10.70	5.45
Adjusted debt/Adjusted network	Times	0.37	1.80
Interest coverage	Times	8.71	2.32

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Packing Credit	NA	NA	NA	19	NA	CRISIL BBB-/Stable
NA	Post Shipment Credit	NA	NA	NA	57	NA	CRISIL A3

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Naya Energy works Pvt Ltd	Full	Subsidiary
Balu Advances technology and systems Pvt Ltd		

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	76.0	CRISIL BBB-/Stable / CRISIL A3		--	29-01-22	CRISIL BBB-/Stable / CRISIL A3		--		--	--
					--	07-01-22	CRISIL BBB-/Stable / CRISIL A3		--		--	--
Non-Fund Based Facilities	ST		--		--	07-01-22	CRISIL A3		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Packing Credit	19	Union Bank of India	CRISIL BBB-/Stable
Post Shipment Credit	11	Union Bank of India	CRISIL A3
Post Shipment Credit	46	Union Bank of India	CRISIL A3

This Annexure has been updated on 14-Feb-2023 in line with the lender-wise facility details as on 07-Jan-2022 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for Consolidation

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