



## India Ratings Assigns Shri Bajrang Alliance's Bank Facilities 'IND BBB-'; Outlook Stable

# 16

NOV 2021

By Ma a Ja

India Ratings and Research (Ind-Ra) has assigned Shri Bajrang Alliance Limited (SBAL) a Long-Term Issuer Rating of 'IND BBB-'. The Outlook is Stable. The instrument wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan		-	October 2025	INR170.0	IND BBB-/Stable	Assigned
Fund-based limits	-	-	-	INR321.5	IND BBB-/Stable/IND A3	Assigned

**Analytical Approach:** Ind-Ra has factored in moderate operational and strategic linkages between SBAL and Shri Bajrang Power and Ispat Ltd (SBPIL), the flagship company of the Goel Group, to arrive at the ratings. The agency has adopted a bottom-up approach to arrive at SBAL's ratings factoring in operational, technical and financial support, and expected liquidity support from SBPIL at all times. Furthermore, both companies have common promoters.

The ratings reflect SBAL's moderate linkages with SBPIL, along with a strong group profile, experienced promoters, modest EBITDA and a confirmation from the group that SBPIL would provide liquidity support to SBAL, if required. However, the ratings are constrained by the small scale of operations of the agro division and the inherent cyclicity of the steel industry.

### KEY RATING DRIVERS

**Support from SBPIL:** As stated by SBPIL's management to Ind-Ra, SBAL is an integral part of the Goel group of companies and SBPIL monitors SBAL's operations and cash flows closely. The promoters play an active role in the key decision making of SBAL and SBPIL, with commonality of the director. In the past, the group has extended liquidity support to SBAL, when required, in the form of inter-corporate deposits (ICDs; FY21: INR117 million, FY20: INR263 million). Ind-Ra has received a formal confirmation from the group that it will continue to extend financial support to SBAL, if necessary. The agency has relied considerably on this confirmation to arrive at the ratings.

Furthermore, there are moderate operational linkages between SBAL and SBPIL as the former procures raw materials from the latter (FY21: INR418 million, 48.25% of total cost of sales, FY20: INR579 million, 40.61%) under related party transaction at arm's length. SBAL, on a standalone basis, accounted for 7% of SBPIL's consolidated revenue in FY21 (FY20: 6.4%, FY19: 5.8%) and 1.5% of the consolidated EBITDA (0.8%, 0.95%).

**Increased Revenue from Steel Division:** The steel division's capacity utilisation reduced to 29% in FY21 (FY20: 37%, FY19: 54.21%) due to the impact of Covid-19-led restrictions on the construction industry - a major end-user segment for structural steel. With the unlocking of economic activities and an increase in demand for company products from the infrastructure sector, the management expect the sales volumes and utilisation rates to return to pre-pandemic levels. The agency estimates volumes of about 27,000 tonnes in FY22 (FY21: 16,782 tonnes, FY20: 23,532 tonnes, FY19: 30,739 tonnes) and the utilisation rate to increase to 45%, despite minor disruptions in 1QFY22 due to the second wave of Covid-19. The combined effect of increased volumes and utilisation rates would lead to increased revenue contribution of INR1,500 million-1,800 million from the steel division in the medium term (FY21: INR1,194 million, FY20: INR1,712 million).

**Foray into Agro Division:** SBAL has diversified its business profile and ventured into the manufacturing of vegetarian frozen food snacks in May 2020 with FY21 being the first full year of operations. The company sells frozen food packets in the domestic and export markets under the brand name GOELD through various retailers, wholesalers and overseas channel partners.

In FY21, the agro division reported revenue of INR900 million with an EBITDA loss INR119 million. The management is investing heavily in building a brand, dealer network and efficient distribution strategy to tap a big opportunity in the export market. The agency expects the agro division to report a marginal negative EBITDA in FY22 owing to continued investments in scaling up the business. Ind-Ra expects an increase in revenue visibility and positive operating cash flows from FY23, given the multiple sources of revenue opportunities in retail segment, HoReCa (hotel/restaurant/café) segment, export markets and the recent tie-up of the company with established brands such as WalMart India Pvt Ltd and BigBasket.

**Strong Group Profile and Flagship Company:** The ratings factor in the promoters' established track record of over three decades in the steel sector. SBAL manufactures structural steel products such as angles, channels and beams, and has an established presence in the steel industry with an extensive dealer network, and numerous customers and suppliers that support the operating profile. SBPIL, the flagship company of the group, has a diversified product portfolio including thermo-mechanically treated bars, alloys, hard bright wires, pellets, among others. SBPIL has backward integration with access to captive iron ore mines.

SBPIL also has interests in hydropower projects through its subsidiary IA Hydro Energy Pvt Ltd (90% stake held by SBPIL). There have been positive developments with the change in terms of debt that contribute to the expected future positive cashflows of IA Hydro and the management has articulated that it does not foresee any cash flow support, unless to meet any short-term or temporary cash flow mismatch. Any additional capex at these entities would be funded by the operational cash flows of these entities and debt raised on their respective balance sheets. At a consolidated level, SBPIL has comfortable credit metrics with net leverage (adjusted net debt/operating EBITDAR) of 2.10x in FY21 (FY20: 3.23x, FY19: 2.28x) and interest coverage (operating EBITDA/gross interest expense) of 4.98x (2.66x, 3.57x).

**Credit Metrics to Deteriorate in FY22, Improvement FY23 Onwards:** The company's credit metrics improved in FY21, although remained moderate. In FY21, SBAL's net leverage improved to 6.45x in FY21 (FY20: 14.5x, FY19: 3.97x) and interest coverage to 2.05x (1.74x, 1.76x) owing to an increase in the operating EBITDA from the steel division to

about INR90 million (INR32 million, FY19: INR49 million). Ind-Ra expects the company's overall credit metrics to deteriorate in FY22, owing to a rise in working capital requirements with the demand-led rise in volumes and cash outflows in scaling up of the agro division. The company would have to take external financing for debt repayments that would increase the overall debt in FY22. The agency expects reduced EBITDA and liquidity pressure would lead to an increase in the net leverage with the interest coverage moderating to 1.1x-1.4x in the medium term. However, the company is likely to benefit from the scaling up of the agro division and witness an increase in operating cash flows and positive EBITDA from FY23, leading to an improvement in the credit metrics from FY23.

**Liquidity Indicator – Stretched:** Ind-Ra expects SBAL's core liquidity to remain stretched over FY22-FY23 owing to moderate EBITDA cashflows (FY21: INR90 million, FY20: INR32 million). The average fund-based limit utilisation remained moderate at around 80%, against the sanctioned limits, during the 12 months ended September 2021 providing some liquidity cushion. Furthermore, at FYE21, the company had a total debt of INR580 million (excluding the corporate guarantee given to SBPIL) on its balance sheet, of which the total short-term debt stood at INR379 million (FY20: INR404 million, FY19: INR195 million) against minimal cash balance. The free cash flow remained negative at INR96 million in FY21 (FY20: negative INR248 million, FY19: negative INR125 million) due to capex and high working capital requirements. The agency expects SBAL's liquidity position to remain stretched in FY22-FY23, considering repayment obligations and working capital requirements. Considering the insufficiency of internal accruals, the agency believes the repayment obligations shall be met by a mix of internal accruals and external financing in the form of ICDs from SBPIL.

**Susceptible to Raw Material Price Volatility:** SBAL is exposed to certain industry risks including volatility in raw material prices, cyclical and competition within the steel sector. While the promoter group has partial backward integration on the iron ore front (SBPIL owns an iron ore mine in Chhattisgarh), a certain quantum of raw material inventory is sourced externally. Volatility in raw material prices has the potential to erode margins. Moreover, given the external purchase of raw materials, SBAL is exposed to inventory write-down risk, if the prices were to fluctuate considerably. However, SBAL mitigates this risk by maintaining inventory levels to match its order book.

**Susceptible to Economic Cycles:** SBAL is also susceptible to changes in the economic environment of the country. Steel products such as angles, beams and channels contribute 65%-70% to the overall revenue and are linked to the growth prospects of the construction sector. A contraction in the construction sector would adversely impact the revenue prospects and could lead to a moderation in the top line.

## RATING SENSITIVITIES

---

**Positive:** Successful scaling up of the agro division, leading to a significant improvement in the overall EBITDA margins and the interest coverage remaining above 2x on a sustained basis, would lead to a positive rating action.

**Negative:** Lower-than-expected revenue or margins, and/or weakening of liquidity and/or material weakening of the linkages between SBAL and SBPIL would lead to a negative rating action.

## COMPANY PROFILE

---

Incorporated in the year 1990, SBAL is one of the group companies of Goel group that is engaged in manufacturing of structural steel products product such as angles, channels, joists, beams and round. The Chhattisgarh plant has capacity of 60,000 metric tonnes of structural steel products. In May 2020, it commenced processing of frozen snack products under its agro division vertical with a total installed capacity of 6,600 metric tonnes annually.

## FINANCIAL SUMMARY

Particulars	FY21	FY20
Revenue (INR million)	2,137	1,713
Operating EBITDA (INR million)	90	32
EBITDA margin (%)	4.2	1.9
Interest coverage (x)	2.05	1.74
Net adjusted leverage (x)	6.45	14.48
Source: SBAL, Ind-Ra		

## BANK WISE FACILITIES DETAILS

C a

## COMPLEXITY LEVEL OF INSTRUMENTS

Instrument type	Complexity Indicator
Term loan	Low
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

## SOLICITATION DISCLOSURES

Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

## ABOUT INDIA RATINGS AND RESEARCH

**About India Ratings and Research:** India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit [www.indiaratings.co.in](http://www.indiaratings.co.in).

## DISCLAIMER

---

ALL CREDIT RATINGS ASSIGNED BY INDIA RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.INDIARATINGS.CO.IN/RATING-DEFINITIONS](https://www.indiaratings.co.in/rating-definitions). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE [WWW.INDIARATINGS.CO.IN](http://www.indiaratings.co.in). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. INDIA RATINGS' CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

---

## Applicable Criteria

---

[C a Ra M](#)  
[Pa a S a Ra L a](#)  
[S -T Ra C a N -F a a C a](#)

---

## Analyst Names

---

[P a A a](#)

### **Mahaveer Jain**

Director

India Ratings and Research Pvt Ltd Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East, Mumbai - 400051

+91 80 46666817

---

[S a A a](#)

### **Prakhar Raizada**

Management Trainee

---

[C C a](#)

### **Rohit Sadaka**

Director

+91 33 40302503

---

M a R a

**Ankur Dahiya**

Manager – Corporate Communication

+91 22 40356121

---