

Bharat Enterprises_(Gurgaon) (Revised)

March 2, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	12.00	CARE BB; Stable; ISSUER NOT COOPERATING* (Double B; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	13.00	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Revised from CARE A4+ (A Four Plus) and moved to ISSUER NOT COOPERATING category
Total Bank Facilities	25.00 (Rs. Twenty-Five Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. has been seeking information from Bharat Enterprises_(Gurgaon) to monitor the ratings vide e-mail communications/letters dated February 21, 2022, February 22, 2022, and February 23, 2022, among others and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on Bharat Enterprises_(Gurgaon) bank facilities will now be denoted as **CARE BB; Stable/CARE A4; ISSUER NOT COOPERATING***. **Users of this rating (including investors, lenders, and the public at large) are hence requested to exercise caution while using the above rating(s).**

The ratings have been revised on account of non-submission of information with respect to the financial and operational performance. The ratings assigned to the bank facilities of Bharat Enterprises are constrained by the high customer concentration risk, deterioration in financial risk profile marked by weak capital structure owing to frequent withdrawal of partner's capital, high overall gearing. The ratings are further constrained by susceptibility to foreign exchange fluctuation risk and the high competition from various organized and unorganized players. However, these rating weaknesses are partially offset by experience of promoters having long track record of operations along with consistent improvement in profitability margins and efficient operating cycle.

Detailed description of the key rating drivers

Key Rating Weaknesses

Deterioration in financial risk profile: The financial risk profile of the firm is characterized by high overall gearing which deteriorated to 1.99x as on March 31, 2020 (PY: 1.04x) primarily on account of increase in total debt from Rs. 4.70 crore as on March 31, 2019, to Rs. 16.96 crore as on March 31, 2020. The partners have utilized the funds towards non-core business which was funded by increased working capital borrowings. This has also resulted in deterioration in TDGCA to 2.06x as on March 31, 2020 (PY: 0.53x). PBILDT interest coverage stood comfortable at 5.82% for FY20, although reduced substantially as compared to 10.83% for FY19.

Customer concentration risk: The firm has a strong and reputed clientele but has a concentrated customer base with around 65% of total revenue from top 10 customers in FY20 increasing from 57% in FY19. During FY20 (refers to period from April 01 to March 31) sales to DKH Retail Ltd. alone stood at ~24% of total sales. During FY20, the firm reported total exports of Rs. 102.65 crore (80% of total sales) which has declined from Rs. 117.11 crore in FY19 (86% of total sales), reduced on account of deferment of orders during Q4FY20 due to lockdown in various European countries.

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

Susceptibility to foreign exchange fluctuation risk: The firm exports its products to European countries and USA with export contribution of about 80% in FY20 (PY: 86%). With significant chunk of sales realization in foreign currency the firm is exposed to foreign exchange fluctuation risk. They hedge only 20%-25% of total transactions and a significant portion of exports is left unhedged which exposes the company to volatility in currency rates and losses arising thereof. However, due to favourable currency movement over the last three years firm has reported foreign exchange fluctuation profit of Rs. 0.85 crore as on March 31, 2020 (FY19: 0.70 crore, FY18: 0.54 crore).

Competition from various organized and unorganized players: As per the Council of Leather Exports, India is the second largest global producer of leather footwear after China. India exported around Rs. 14,758.8 crore of leather footwear in FY20 a decline of about 3.86% as compared to FY19. Leather garment industry is highly competitive in nature due to the low entry barriers on account of low capital investment required for setting up of a new facility. Also, the operations of the industry are labour intensive resulting in presence of large number of unorganized players in the industry.

Constitution as a partnership firm: Bharat Enterprises constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of partners. The partners have added capital to the extent of Rs. 4.00 crore in FY20 (net of additions) (PY: withdrawn capital to the extent of Rs. 10.59 crore), which resulted in higher net worth of Rs. 8.51 crore in FY20 as compared to Rs. 4.51 crore during previous year end. Moreover, partnership firms have limited access to external borrowings as credit worthiness of promoters is the key factor affecting credit decision for the lenders.

Key Rating Strengths

Experienced Promoters and long track record of operations: Bharat Enterprises is a partnership firm with Mr Dilmohan Singh and Mr Prithpal Singh as the partners with 50% profit sharing. Mr Prithpal Singh is a graduate and has more than 45 years of experience in the industry. Mr Dilmohan Singh has done B.Sc. (H) and has an experience of more than 13 years in the industry. The firm is the flagship entity of the Bharat Leather group, which has been engaged in trading and manufacturing of leather shoes and leather garments since 1957. Bharat Enterprises has a track record of more than 30 years in the manufacturing of leather garments and accessories and over the years it has established long standing relationships with its customers and suppliers.

Moderate scale of operations with increase in profitability margins: The total operating income of firm has declined in FY20 by ~6% to Rs. 128.41 crore as against Rs. 135.90 crore in FY19 on account of lower sales realization led by reduction in leather bag sales by 48% in FY20. The PBILDT margin has shown consistent improvement over the years from 4.62% in FY18 to 7.73% in FY20 despite decline in the scale of operations in FY20. The improvement in PBILDT margin may be attributed to reduction in operating cost (Rs. 126.26 crore in FY19 to Rs. 118.49 crore in FY20) like commission charges, foreign travel expenses along with reduction in discounts given to customers so as to improve sales realization. The firm has achieved total sales of Rs 105.37 crore till January 31, 2021.

Short operating cycle: The working capital cycle of firm remains negative 1 day in FY20 (-11 days in FY19). Working capital cycle has remained low on account of high creditor period of 90 days in FY20 increased from 85 days in FY19. The company has an inventory holding period of 44 days in FY20 (PY: 34 days) and relatively faster collection period of 45 days for FY20 as against 40 days in FY19. The firm's raw materials include finished leather (93% of the total raw material cost in FY20) and consumables like trims, buttons, zippers etc. The finished leather is sourced from domestic traders and manufacturers on a credit period of 80-100 days, whereas consumables are sourced from both domestic and international suppliers.

Liquidity: Adequate

Liquidity of firm is marked by low operating cycle of negative 1 days in FY20. Further firm has a current ratio of 0.98x for FY20 (PY: 0.89x). The firm has a scheduled debt repayment of Rs. 0.44 crore for FY21 as against projected GCA of Rs. 9.98 crore for FY21 and has a cash and bank balance of Rs. 5.67 crore as on March 31, 2020. The average utilization of fund-based EPC limit stood at 37.49% while utilization of DOD limit stood at 61.48% during trailing twelve months ending December 2020. The firm did not avail the moratorium facility under RBI's covid relief package.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[CARE's criteria on assigning outlook and credit watch to credit ratings](#)

[CARE's policy on default recognition](#)

[Liquidity Analysis – Non-financial sector](#)

[Rating Methodology – Manufacturing companies](#)

[CARE's methodology for financial ratios – non-financial sector](#)

[CARE's criteria Short Term Instruments](#)

About the Company

Bharat Enterprises (Bharat) was set up as a partnership firm in 1989 by Late Mr. Partap Singh and Mr. Prithipal Singh (son of Mr. Partap Singh) for manufacturing of leather garments and accessories such as jackets, long coats, waist coats, trousers, motorbike jackets, bags etc. In 2007, Mr. Kulbir Singh Oberoi (relative of Mr. Partap Singh) joined as a partner (20% profit sharing). In 2009, Mr. Kulbir Singh Oberoi exited the firm after the demise of Mr. Partap Singh, the structure of partnership firm was modified with Mr. Dilmohan Singh (Son of Mr. Prithipal Singh) inducted as a new partner. The firm procures finished leather from various traders and manufacturers located in Kolkata and Chennai and undertake manufacturing of garments and accessories at its facility located at Gurgaon, which has a current manufacturing capacity of 10.70 lakh pieces of leather garments and accessories per annum. The firm exported ~87% of its total sales in FY20 (PY: ~93%) catering to more than 10 countries across Europe and the United States of America.

Brief Financials (Rs. crore)	31-03-2019 (A)	31-03-2020 (A)	9MFY22
Total operating income	135.91	128.42	NA
PBILDT	9.64	9.93	NA
PAT	7.89	7.08	NA
Overall gearing (times)	1.04	1.99	NA
Interest coverage (times)	10.83	5.82	NA

A: Audited

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 for this company: Annexure 4

Annexure-1: Details of Instruments / 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-Term Loan		-	-	-	1.39	CARE BB; Stable; ISSUER NOT COOPERATING*
Fund-based - ST-EPC/PSC		-	-	-	13.00	CARE A4; ISSUER NOT COOPERATING*
Fund-based - LT-Working Capital Limits		-	-	-	10.61	CARE BB; Stable; ISSUER NOT COOPERATING*

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 - ST-EPC/PSC	ST	-	-	-	1)Withdrawn (02-Apr-20)	1)CARE A4; ISSUER NOT COOPERATING* (03-Jul-19)	-
2	Fund-based - LT-Term Loan	LT	1.39	CARE BB; Stable; ISSUER NOT COOPERATING	-	1)CARE BB+; Stable (01-Mar-21)	-	-

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3	Fund-based - ST-EPC/PSC	ST	13.00	CARE A4; ISSUER NOT COOPERATING *	-	1)CARE A4+ (01-Mar-21)	-	-
4	Fund-based - LT-Working Capital Limits	LT	10.61	CARE BB; Stable; ISSUER NOT COOPERATING *	-	1)CARE BB+; Stable (01-Mar-21)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	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 Ratings Ltd. 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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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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