

Bhaskar Industries Private Limited

February 03, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	268.50	CARE BBB (CWN) (Triple B) (Under Credit watch with Negative Implications)	Continues to be on Credit watch with Negative Implications
Short Term Bank Facilities	30.00	CARE A3 (CWN) (A Three) (Under Credit watch with Negative Implications)	Continues to be on Credit watch with Negative Implications
Total Bank Facilities	298.50 (Rs. Two Hundred Ninety-Eight Crore and Fifty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings has reaffirmed the ratings assigned to the bank facilities of Bhaskar Industries Private Limited (BIPL). The ratings were earlier placed under 'Credit watch with Negative implications' vide CARE Ratings' Press Release dated August 02, 2021, with regard to the search conducted by the Income Tax Department (ITD) across various offices of the group.

CARE Ratings has continued to maintain the ratings under 'Credit watch with Negative implications' since clarity is still awaited on the outcome of the search. CARE Ratings is continuing to closely monitor the developments pertaining to the aforementioned event and periodically engaging with the management of BIPL. The rating watch is likely to be resolved by CARE Ratings and a final rating action shall be taken once further clarity emerges.

The ratings assigned to BIPL continues to derive strength from experienced promoters in textile business, strong business profile of the company, improvement in operational performance in 9MFY22 and diversified customer base. However, ratings are constrained by modest capital structure, working capital intensive nature of operations, damage to inventory and machinery during August, 2020 and susceptibility to volatility in raw material price and foreign exchange rates. The ratings are also partially constrained by project risk for upgradation capex undertaken by the company.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in ROCE above 12% on sustained basis.
- Reduction in gross working capital cycle days to below 140 days resulting in lower working capital requirements and consequently reduction in working capital utilization.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration of capital structure on account of debt funded capex, high working capital requirements with overall gearing exceeding 1.00x.

Detailed description of the key rating drivers

Key Rating Strengths

Strong & resourceful promoters

Bhaskar Industries Pvt Ltd (BIPL) is a part of Dainik Bhaskar (DB) group promoted by the Agarwal family and is well known for its association with print media through D B Corp Ltd, which is one of the leading print media companies in India. The promoters of DBCL have been in the print business for almost five decades, since the first edition of DB was launched in 1958. DB group has turned itself into a diversified conglomerate with interests in various businesses like textiles, FM radio and real estate development apart from its traditional business of being a newspaper publication house. DBCL is one of the leading print media group amongst national dailies in terms of readership with a total readership of ~69 million readers across its various publications. DBCL's flagship newspaper 'Dainik Bhaskar' is the most widely read Hindi newspaper in India.

Strong business profile

BIPL has integrated denim manufacturing facilities ranging from spinning to yarn dyeing to weaving and finishing. BIPL is primarily engaged in the manufacturing of denim fabric; it also manufactures cotton yarn. BIPL is one of the larger denim manufacturing units in India on the basis of installed capacity. As on September 30, 2021; BIPL had denim manufacturing capacity of about 38 mmpa (million metres per annum) and spinning capacity of 12,300 MTPA (metric tons per annum). Further, the company is in process of upgrading its existing machinery to improve operational efficiency as well as product-mix. BIPL sells its products both domestically as well as exports it across various countries. Domestic sales accounted for ~72% of the total sales for FY21 (FY20: 81%). BIPL is planning to increase its export as it drives better margins.

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

Subdue operational performance due to COVID-19 pandemic during FY21; albeit strong recovery in 9MFY22

In FY21, the operational performance of the company has been significantly impacted due to complete lockdown in most parts of the country till May 2020, subsequent extension of localised lockdowns and discretionary nature of the apparels (end use) and other products manufactured by the company. Total income declined by ~38% to Rs.380 crore in FY21. However, the company has made a strong recovery in H2FY21 and H1FY22 owing to pent-up demand in the textile segment. During H2FY21 and H1FY22, BIPL registered net sales of Rs.280 crore and Rs.286 crore respectively. Further, for Q3FY22, BIPL has registered net sale of Rs.213 crore, taking 9MFY22 gross turnover to Rs.500 crore with PBILDT of around Rs.57 crore.

Operating margins of the company continues to improve post closure of trading operations in FY19 and improvement in realisation for cotton yarn. BIPL's operating margin stood at 8.83% for FY21 vis-à-vis 5.62% in FY20. Further, operating margin improved to 10.01% for 9MFY22 as the company has completed phase-1 of upgradation capex. New state-of-the-art machinery will help the company to improve quality of fabrics and sales realization. Further, the company will save on logistics cost as captive yarn consumption will increase to new machinery. The company is also focusing on improving its export share and targeting exports of Rs.150 crore for FY22. Export sales drives better margins than domestic sales. Owing to above factors, BIPL's operating margin is expected to improve in the range of 10%-10.5% for FY22-23.

Overall capacity utilization remains modest for FY21 with ~22% capacity utilization for spinning division and ~64% capacity utilization for denim division. Post relaxation of lockdown, BIPL has improved its capacity utilization with ~38% capacity utilization for spinning division and ~79% for denim division in H1FY22.

Diversified customer base

BIPL has a diversified large customer base with no single customer accounting for over 5% of gross sales. Its top ten customers contributed 32% to FY21 gross sales (PY: 26%). BIPL's customers are geographically diversified as the company sells its products both domestically as well as exports it across the various countries. However, export sales remain concentrated with Bangladesh contributing 77% of total export in FY21. During FY21, the share of exports to the total income increased to 28% as against 19% during FY20.

Key Rating Weaknesses

Modest capital structure and debt coverage indicators

BIPL's financial risk profile is characterized by modest capital structure and debt coverage ratios. Overall gearing flat at 0.46x as on March 31, 2021 (PY: 0.46x). The company has availed GECL and capex term loan in FY21. BIPL is undertaking upgradation capex of Rs.110 crore, funded through a mix of debt-equity ratio of 2.67x. owing to same, overall gearing is expected deteriorate to 0.68x as on March 31, 2022. However, the company has started repayment of capex term loan while disbursement of ~Rs.25 crore is pending. The company has repaid Rs.9 crore till 31-Dec-21 out of Rs.54 crore term loan disbursement.

Debt coverage indicators improved during FY21, owing to improvement in operating margins. Total debt to GCA improved to 7.85x for FY21 (PY: 9.61x), while interest coverage stood at 1.86x for FY21 (PY: 1.66x). For H1FY22, interest coverage stood at 2.43x (H1FY21: 0.71x). Going forward, debt coverage indicators expected to show improvement, owing to improvement in operational performance post upgradation capex.

Working capital intensive nature of operations

The company procures cotton/cotton yarn from domestic players mainly against cash basis and also against credit. Working capital cycle got elongated from 131 days in FY20 to 219 days in FY21. The elongation was on account of increase in inventory days from 96 days in FY20 to 164 days in FY21 on account of disruptions in operations due to second wave of COVID-19. Further, BIPL's collection period elongated from 99 days in FY20 to 147 days in FY21, as the company faced challenges in realization of debtors due to impact of second wave of COVID-19 pandemic and decline in top-line. This results in working capital intensive nature of operations which is reflected in high utilization of working capital limits. Average working capital utilization stood at ~85% during the past 12 months ended Nov-2021.

Inventory and Machinery damage due to water logging in August 2020

On August 29 and 30, 2020, the company premises witnessed major water logging which led to damages of inventory and plant & machinery. As per management estimates the total inventory damaged was Rs.50 crore and damage to machinery of around Rs.23 crore. BIPL has filed claim with insurance company against insured goods and machinery. Till December 31, 2021, the company has realized Rs.20.24 crore from salvage value of the goods and machinery and has received insurance amount of Rs.23.50 crore. As per the management, Rs.27.76 crore may be final assessed value and is expected to release by the insurance company after completion of permitted replacement of machineries.

Successful completion of phase-1 of upgradation capex; delay in project execution for phase-2

The company is undertaking a modernization cum expansion project to increase the weaving width from 190 cm to around 220-230 cm. Post modernization, the denim capacity shall increase to around 40.0 mmpa while yarn manufacturing capacity to will be increase to 15000 MTPA.

The project is slated to be completed in two phases. The overall cost of the project is estimated to be Rs. 110.00 crore funded through debt of Rs. 80.00 crore and promoter's contribution of Rs.30 crore. BIPL has successfully completed and implemented phase-1 of the upgradations in current capacity without any cost overruns. The project was delayed by six months due to COVID-19 pandemic. However, the company has not opted for any change in repayment schedule for the term loan. For phase-2 of the project, the company is facing delay due to impact of chip shortage on OEM. The management expects remaining machinery is expected to arrive by March-23 and completion of the project in Q1FY23. Promoters have already infused Rs.30 crore as project equity. The company has undrawn term loan of Rs. 25.55 crore as on December 31, 2021. The capex is in advance stage of completion with overall completion of the project stood at ~70% as on December 31, 2021. Phase-1 of upgradations are already

implemented in current capacity and improvement in operational performance is reflected for 9M-FY22 performance. Further, the company has already started repayment of this term loan as per repayment schedule while disbursement of Rs.25 crore is pending for phase-2 capex. Therefore, project risk is largely mitigated.

Volatility in raw material prices and foreign exchange rates

Major raw materials used by BIPL include cotton/cotton yarn. Cotton prices are volatile in nature driven by various factors like, area under cultivation, yield for the year, government regulation and pricing, etc. Hence profitability of the company is highly susceptible to raw material price fluctuation which has exhibited considerable volatility in the past. However, BIPL mainly follows order-based production policy wherein around 50-60% of the goods are produced against orders which minimizes inventory fluctuation risk. Additionally, BIPL faces risk of volatilities in foreign exchange rates as the company derives around 50% of revenue from export orders.

Cyclicality, fragmented and competitive nature of industry

BIPL has high product concentration risk with denim contributing around 85% to its sales (incl. captive sales) in FY21. BIPL's high dependence on denim makes it susceptible to risk associated with a downturn in the denim industry. The denim industry is inherently cyclical in nature. The demand is directly linked to the consumption trends and disposable income levels and the general economic outlook of the country. Further, it remains vulnerable to various factors such as fluctuations in prices of cotton, crude oil, mobilisation of adequate workforce and changes in government policies for overall development of the textile industry. The textile industry, as a whole, is also highly competitive and fragmented in nature with a large number of players operating in the organised and unorganised sector.

Liquidity: Adequate

BIPL's liquidity profile is marked by cash and bank balance of Rs.10.61 crore and current ratio at 1.57x as on March 31, 2021. Company's working capital limits were utilized with an average of 85% for last 12-month period ending in Nov-21, providing little cushion for meeting any incremental working capital requirement in near term. During FY22, BIPL has gross repayments of Rs.18.70 crore against expected cash accruals of Rs.47 crore. Of this scheduled repayment, the company has already repaid Rs.14 crore till December 31, 2021. The company is also undertaking upgradation capex and has undrawn term loan of Rs.25 crore as on December 31, 2021. Considering above, BIPL's liquidity profile remains adequate.

Analytical approach: Standalone

For arriving at the ratings, CARE has considered the standalone financial of BIPL and deriving comfort from its association with Dainik Bhaskar group.

Applicable Criteria

[Policy on default recognition](#)
[Factoring Linkages Parent Sub JV Group](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Cotton Textile](#)

About the Company

Incorporated in 1985, Bhaskar Industries Private Ltd (BIPL) is a part of the Dainik Bhaskar (DB) group promoted by the Agarwal family which is well known for its association with print media through D B Corp Ltd one of the leading print media companies in India. BIPL has integrated denim manufacturing facilities ranging from spinning to yarn dyeing to weaving and finishing. BIPL is primarily engaged in the manufacturing of denim fabric; it also manufactures cotton yarn. BIPL is one of the larger denim manufacturing units in India on the basis of installed capacity. BIPL has denim manufacturing capacity of about 38 mmpa (million metres per annum) and spinning capacity of 15000 MTPA (metric tons per annum).

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22
Total operating income	615.86	380.65	302.07
PBILDT	34.58	33.60	27.89
PAT	3.91	4.68	NA
Overall gearing (times)	0.46	0.46	NA
Interest coverage (times)	1.66	1.86	NA

A: Audited, NA: Not 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 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
Non-fund-based - ST-BG/LC	-	-	-	-	15.00	CARE A3 (CWN)
Fund-based - LT-Cash Credit	-	-	-	-	123.00	CARE BBB (CWN)
Fund-based - LT-Term Loan	-	-	-	June, 2026	120.50	CARE BBB (CWN)
Fund-based - ST-Vendor financing	-	-	-	-	15.00	CARE A3 (CWN)
Fund-based - LT-Bill Discounting/ Bills Purchasing	-	-	-	-	25.00	CARE BBB (CWN)

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	Non-fund-based - ST-BG/LC	ST	15.00	CARE A3 (CWN)	1)CARE A3 (CWN) (04-Aug-21)	1)CARE A3 (08-Jan-21)	1)CARE A3+ (02-Jan-20)	1)CARE A3+ (10-Dec-18)
2	Fund-based - LT-Cash Credit	LT	123.00	CARE BBB (CWN)	1)CARE BBB (CWN) (04-Aug-21)	1)CARE BBB; Stable (08-Jan-21)	1)CARE BBB+; Stable (02-Jan-20)	1)CARE BBB+; Stable (10-Dec-18)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (10-Dec-18)
4	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (10-Dec-18)
5	Fund-based - LT-Term Loan	LT	120.50	CARE BBB (CWN)	1)CARE BBB (CWN) (04-Aug-21)	1)CARE BBB; Stable (08-Jan-21)	1)CARE BBB+; Stable (02-Jan-20)	1)CARE BBB+; Stable (10-Dec-18)
6	Fund-based - ST-Vendor financing	ST	15.00	CARE A3 (CWN)	1)CARE A3 (CWN) (04-Aug-21)	1)CARE A3 (08-Jan-21)	-	-
7	Fund-based - LT-Bill Discounting/ Bills Purchasing	LT	25.00	CARE BBB (CWN)	1)CARE BBB (CWN) (04-Aug-21)	1)CARE BBB; Stable (08-Jan-21)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not applicable

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Bill Discounting/ Bills Purchasing	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based - ST-Vendor financing	Simple
5	Non-fund-based - ST-BG/LC	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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