

Bhagyanagar India Limited

December 03, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	5.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Long Term Bank Facilities	64.00 (Enhanced from 61.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	37.00 (Enhanced from 27.00)	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	106.00 (Rs. One Hundred Six Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the enhanced bank facilities of Bhagyanagar India Limited (BIL) continue to derive strength from experienced promoter group with long established track record of operations, steady improvement in total operating income during FY21 (refers to the period April 01 to March 31) and Q1FY22, reputed clientele, and stable industry growth prospects. The rating strengths are, however, partially offset by thin profitability, moderate leverage and coverage indicators, elongated operating cycle, volatile raw material prices and forex risk.

Key Rating Sensitivities

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

- ✓ Improvement in PBILDT margins at 4% or above, on a sustained basis with consistent improvement in scale of operations.
- ✓ Improvement in overall gearing ratio to less than 0.75x and total debt to PBILDT below 4x.

Negative factors: Factors that could lead to negative rating action/upgrade

- ✗ Working capital cycle stretching to beyond 90 days thereby impacting the liquidity position of the company
- ✗ Decline in PBILDT margin to below 2% in future
- ✗ Any notable decline in TOI, going forward
- ✗ Overall gearing deteriorating to above 2x, in future.

Detailed description of the key rating drivers

Key Rating Strengths

Established group with vast experience of promoters

Founded in 1978, the Surana Group is a Hyderabad based well diversified business conglomerate with focus on areas of Telecommunications, Copper rods, Copper Pipes, Copper Sheets, Copper Foils and Power Cables, Wind Power, Solar Power generation. Bhagyanagar India Limited (BIL) was founded by Mr. G M Surana in 1985 is the Chairman and head the Surana Group of companies based out of Hyderabad. He is a graduate in Commerce and Law from Osmania University having about two decades of experience in Ferrous and Non-Ferrous metal industry. The business operations are well supported by team of qualified professionals.

Established and strong brand name with reputed clientele

Being one of the oldest copper product manufacturing companies with over four decades of experience, BIL has been able to establish itself as one of the leading players in the copper products due to which the company is successful in developing long term relationships with major players in automobile and electrical segments. Few of the customers of BIL includes Lucas-TVS, Fine cab Wires and Cables Private Limited, HBL Power System Limited, Valeo products LLP and Esennar Transformers Pvt Ltd among others. Further, the client base of the company is also highly diversified with the top five customer together contributing only to 22.62% of the TOI in FY20 (PY: 26.12%). Further, Lucas TVS Limited is the major customer of the company and have been doing business with the group from more than six years.

Improved scale of operations in FY21 albeit low profit margins

The total operating income of the company increased from Rs.563 crore in FY20 to Rs.787 crore in FY21 registering y-o-y growth of 39% on account of increase in sales from BCPL from Rs.143 crore to Rs. 348 crore with first full year of operations coupled with improvement in sales realisation. 99% of the revenue derived from the copper division. BIL also operates wind

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

power plant in Karnataka State. BIL has entered into Power Purchase Agreement (PPA) for the entire capacity for a period of 20 years (valid through 2026) with Hubli Electricity Supply Company Limited (HESCOM) and Gulbarga Electricity Supply Company Limited (GESCOM) at a fixed tariff rate of Rs.3.40 per unit. BCPL diversified its operations to export market as well and derived around 30% of revenue from export sales.

The PBILDT margin of the company continues to remain thin at 2.35% in FY21 (PY:2.77%). The profitability margins of the company dependent on fluctuation of raw material prices coupled with sales made from various segment. Out of the total cost, 90% comprise of raw material (copper) where the prices are volatile. Nevertheless, the PAT margin marginally increased from 0.18% in FY20 to 0.44% in FY21 at the back of reduction in interest cost with lower ROI charged by banks.

Liquidity analysis: Adequate

The company is generating sufficient accruals to meet its debt obligations. The company has projected a gross cash accrual of Rs. 14 crore as against debt repayment obligation of around Rs 4.00 crore. The company has not availed the COVID moratorium for the debt repayment. The liquidity is supported by above unity current ratio at 1.51x and unutilized working capital limits around 22%.

Stable Industry outlook

The global refined copper production is expected to reach 27.61 million tonnes in 2025, growing at a CAGR of 2.94%, for the time period 2021-2025. Factors such as rising copper annual capacity in renewable energy, growing use of copper in smart home appliances, expansion of construction industry, increasing manufacturing of electrical equipment and growth in scrap copper supply would drive the growth of the industry. Copper is considered as an important element of economic growth worldwide. An increase in the price of copper is an indication that the global economy is recovering from the COVID-19 disruption. Copper is outperforming other base metals such as aluminium and zinc due to its high demand for industrial applications, which is contributing to the growth of the global copper market.

Key Rating Weaknesses

Moderate capital structure as on March 31, 2021

The capital structure of the company moderated as on March 31, 2021. The overall gearing ratio deteriorated from 0.54x as on March 31, 2020 to 1.22x as on March 31, 2021 on account of higher outstanding working capital bank borrowings as on closing balance sheet dated March 31, 2021 due to increase in unsecured loans of Rs 15 crore and GECL loans of Rs. 8.72 crore availed during the year. Accordingly, the coverage ratio of the company marked by total debt/GCA deteriorated from 10.84x in FY20 to 15.65x in FY21. Nevertheless, the PBILDT interest coverage ratio improved to 2.23x in FY21 (PY:1.64x) with better operational profits and lower interest expenses.

Volatile raw material prices resulting in thin profitability.

The key raw materials required for BIL is copper. Copper prices are highly volatile and depend on several international economic parameters. Profitability of the company is impacted due to fluctuations in raw material prices. To manage this volatility, the company generally keeps adequate stock of raw materials at the perceived lowest prices during a period to ensures stable profitability margins. Also, as the company operates in a competitive industry which imposes further pressure on its profitability margins.

Forex Risk; albeit hedge exists

BIL imports around 40% of raw material and have export sales of 15% which exposes it to forex fluctuation risk. Nevertheless, the company has robust framework in place to protect its interest from risks arising out of market volatility. Almost 50% to 60% of the inventory is always hedged on the MCX thereby insulating it from any volatility risk

Analytical approach: Consolidated

CARE has analyzed the consolidated financials of Bhagyanagar India Limited and its 100% owned subsidiary, Bhagyanagar Copper Private Limited while arriving at the ratings of Bhagyanagar India Limited.

Applicable Criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the Company

Bhagyanagar India Limited (BIL) incorporated in 1985 is the flagship company of the Hyderabad based Surana Group promoted by Mr. G M Surana and is listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The company is engaged in the business of manufacturing of wide range of copper products with an installed capacity of 15000MT per annum. The company caters to various Original Equipment Manufacturers (OEM's) and players in auto components industry. The products manufactured by BIL find applications in telecommunications, power & distribution, low range transformers, solar panels and auto ancillaries among others.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22(UA)
Total operating income	506.37	508.17	682.75
PBILDT	11.62	11.86	15.96
PAT	1.10	0.97	5.17
Overall gearing (times)	0.31	0.82	1.09
Interest coverage (times)	1.65	2.08	2.87

A: Audited; UA-Unaudited

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-Cash Credit		-	-	-	64.00	CARE BBB; Stable
Fund-based - ST-Standby Line of Credit		-	-	-	2.00	CARE A3+
Fund-based - ST-Line of Credit		-	-	-	20.00	CARE A3+
Non-fund-based - ST-Working Capital Limits		-	-	-	15.00	CARE A3+
Fund-based - LT-Term Loan		-	-	Jan 2025	5.00	CARE BBB; Stable

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 - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (18-Feb-20) 2)CARE BBB; Negative (23-Oct-19)	1)CARE BBB+; Stable (12-Jul-18)
2	Fund-based - LT-Cash Credit	LT	64.00	CARE BBB; Stable	1)CARE BBB; Stable (08-Nov-21) 2)CARE BBB; Stable (06-May-21)	1)CARE BBB; Stable (28-Dec-20)	1)CARE BBB; Stable (18-Feb-20) 2)CARE BBB; Negative (23-Oct-19)	1)CARE BBB+; Stable (12-Jul-18)

3	Fund-based - ST- Standby Line of Credit	ST	2.00	CARE A3+	1)CARE A3+ (08-Nov-21) 2)CARE A3+ (06-May-21)	1)CARE A3+ (28-Dec-20)	1)CARE BBB; Stable (18-Feb-20) 2)CARE BBB; Negative (23-Oct-19)	1)CARE BBB+; Stable (12-Jul-18)
4	Fund-based - ST- Line of Credit	ST	20.00	CARE A3+	1)CARE A3+ (08-Nov-21) 2)CARE A3+ (06-May-21)	1)CARE A3+ (28-Dec-20)	1)CARE BBB; Stable / CARE A3+ (18-Feb-20) 2)CARE BBB; Negative / CARE A3+ (23-Oct-19)	1)CARE BBB+; Stable / CARE A2 (12-Jul-18)
5	Non-fund-based - ST-Letter of credit	ST	-	-	1)Withdrawn (08-Nov-21) 2)CARE A3+ (06-May-21)	1)CARE A3+ (28-Dec-20)	1)CARE BBB; Stable / CARE A3+ (18-Feb-20) 2)CARE BBB; Negative / CARE A3+ (23-Oct-19)	1)CARE BBB+; Stable / CARE A2 (12-Jul-18)
6	Fund-based - LT- Line Of Credit	LT	-	-	-	-	1)Withdrawn (18-Feb-20) 2)CARE BBB; Negative (23-Oct-19)	-
7	Non-fund-based - ST-Working Capital Limits	ST	15.00	CARE A3+	1)CARE A3+ (08-Nov-21) 2)CARE A3+ (06-May-21)	1)CARE A3+ (28-Dec-20)	1)CARE A3+ (18-Feb-20) 2)CARE A3+ (23-Oct-19)	-
8	Fund-based - LT- Term Loan	LT	5.00	CARE BBB; Stable				

* Long Term / Short Term

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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Line of Credit	Simple
4	Fund-based - ST-Standby Line of Credit	Simple
5	Non-fund-based - ST-Working Capital Limits	Simple

Annexure 5: Bank Lender Details for this Company: Not Applicable

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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