

## Bhaskar Industries Private Limited

August 04, 2021

### Ratings

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

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has placed the credit ratings of Bhaskar Industries Private Limited (BIPL) on 'Credit watch with negative implications' following the disclosure made by DB Corp Limited on the exchanges as well as based on various media articles with regard to search conducted by the Income Tax Department (ITD) across various offices of the Dainik Bhaskar Group. CARE is trying to reach out to management to understand the impact of event and outcome of the IT raid. CARE will remove the rating from watch and take a final rating action once it has clarity on the impact of IT raid on business and financial profile of BIPL.

The ratings assigned to the bank facilities of Bhaskar Industries Pvt. Ltd (BIPL) factor in the weakening of operational and financial performance in H1FY21 in the wake of COVID-19 which is further impacted on account of waterlogging in August-20 at the company's plant. The ratings continue to derive strength from strong parentage of Dainik Bhaskar (DB) group, experienced management, established position of BIPL in the denim industry, and its integrated operations.

The ratings however continue to be constrained by low profitability, moderate financial risk profile and working capital intensive operations. Furthermore, the ratings are also constrained by the susceptibility of the company's profitability to volatility in the prices of raw material and intense competition in the sector.

### Rating Sensitivities

#### Positive Factors

- Improvement in operating margins to 8-10% on a sustained basis
- Improvement in RoCE on a sustained basis to 12+%
- Reduction in gross working capital cycle days to below 140 days resulting in lower working capital requirements and consequently reduction in working capital utilisation

#### Negative Factors

- 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 DB is the most widely read Hindi newspaper in India. Market capitalisation of DBCL as on August 03, 2021 stood at Rs. 1,632 crore.

**Strong business profile:** BIPL has integrated denim manufacturing facilities ranging from spinning to yarn dying 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, 2020; BIPL had denim manufacturing capacity of about 38 mmpa (million metres per annum) and spinning capacity of 12,300 mtpa (metric tons per

annum). BIPL sells its products both domestically as well as exports it across various countries. Domestic sales accounted for ~81% of the total sales.

**Diversified customers:** BIPL has a diversified large customer base with no single customer accounting for over 4% of gross sales. Its top ten customers contributed 25.72% to FY20 gross sales (PY: 20.13%). BIPL's customers are geographically diversified. BIPL sells its products both domestically as well as exports it across the various countries. During FY20, the share of exports to the total income decreased to 19% as against 25% during FY20.

#### Key Rating Weaknesses

**Stable operational performance in FY20; FY21 to be significantly impacted due to COVID:** During FY20, total income declined by 19.85% to Rs. 615.86 crore mainly on account of company halting its low-margin trading activities and due to nationwide shutdown towards the end of FY20. However, during the same period, company reported a growth of 8.70% in its manufacturing sales on account of increase in sales from denim division coupled with improvement in realisations.

Although, BIPL's operating profits declined, its PBILDT margins improved by 92bps to 5.62% due to halting of low-margin trading activities and improvement in denim realisations.

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.

The company till H1FY21, has been able to report PBILDT of Rs. 6.81 crore on a total income of Rs. 98.79 crore.

**Deterioration of company's credit profile in FY21:** BIPL's financial risk profile is characterised by moderate capital structure and debt coverage ratios. Debt coverage indicators such as overall gearing and total debt to GCA improved marginally to 0.46x and 9.61x respectively as on March 31, 2020. Similarly, interest coverage ratio improved to 1.66x in FY20.

Going ahead, in FY21 and FY22, the capital structure is expected to deteriorate on account of fresh debt raised by the company to fund its capex. Interest coverage ratio for H1FY21 stood at 0.71x.

**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.

The assessment of damage of the plant & machineries is still underway and the repair/replacement cost is estimated to be in the range of Rs. 15-20 crore which will be settled by the insurance claim. As per the management weaving is operating at full capacity, however, spinning operations have been severely impacted. The management expects the entire process of claim settlement will be completed by end of March 2021.

**Working capital intensive nature of operations:** The company procures cotton/cotton yarn from domestic players mainly against cash basis and also against credit. Gross working capital cycle stood at ~6 months. Average collection period stood at 3-3.5 months. Further, average inventory period stood at ~2.5 months as the company being an integrated player stocks everything from cotton to yarn to fabrics. This results in working capital intensive nature of operations which is reflected in high utilisation of working capital limits. Average working capital utilisation stood at 85% during the past 12 months ended Nov 2020.

**Delays in capex due to COVID-19:** The capex has been delayed by six months from Sep-20 to Mar-21 (Phase – I) and from Mar-21 to Sep 21 (Phase-II) on account of COVID-19. The company has however not witnessed any cost overruns.

The company till date has incurred Rs. 30.00 crore towards the project. Commissioning of the project within envisaged timelines and cost remains critical from credit perspective.

**Volatility in raw material prices:** 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.

**Cyclicality, fragmented and competitive nature of industry:** BIPL has high product concentration risk with denim contributing around 76% to its sales (incl. captive sales) in FY19. 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 Position: Adequate

The company's liquidity profile has been impacted on account of reduced cash accruals due to COVID-19 and high scheduled debt repayments. The liquidity profile, however, continues to be adequate as the company has headroom available in the form of undrawn working capital lines and envisaged GCA of Rs. 15.60 crore. For FY21, company had term loan repayments of Rs. 0.35 crore which is already repaid and Rs. 2.54 crore of COVID limit repayments. The average utilisation continues to remain high at 85% for trailing 12 months Nov 2020. BIPL had also applied for moratorium on payments as allowed by RBI.

#### Analytical approach: Standalone

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

#### Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology-Cotton Textile Manufacturing](#)

[Criteria for Short Term Instruments](#)

[Financials Ratio-Non Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

#### 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 12300 mtpa (metric tons per annum).

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total operating income	768.37	615.86
PBILDT	36.14	34.58
PAT	1.62	3.91
Overall gearing (times)	0.53	0.46
Interest coverage (times)	1.19	1.66

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

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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	-	-	March, 2026	120.50	CARE BBB (CWN)
Fund-based - ST-Vendor financing	-	-	-	15.00	CARE A3 (CWN)
Fund-based - LT-Bills 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 (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; 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; 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 (08-Jan-21)	-	-
7.	Fund-based - LT-Bills discounting/ Bills purchasing	LT	25.00	CARE BBB (CWN)	-	1)CARE BBB; Stable (08-Jan-21)	-	-

**Annexure 3: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bills 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

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Mradul Mishra

Contact no.: 022-68374424

Email ID: [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Mr. Soumya Dasgupta

Contact no.: 022-67543456

Email ID: [soumya.dasgupta@careratings.com](mailto:soumya.dasgupta@careratings.com)

### Relationship Contact

Name: Ankur Sachdeva

Contact no.: 022-67543495

Email ID: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**