

## Bhaskar Industries Private Limited

October 04, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	268.50	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed and removed from Credit watch with Negative Implications; Stable outlook assigned
Short Term Bank Facilities	30.00	CARE A3 (A Three)	Reaffirmed and removed from Credit watch with Negative Implications
<b>Total Bank Facilities</b>	<b>298.50</b> <b>(Rs. Two Hundred Ninety-Eight Crore and Fifty Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Bhaskar Industries Private Limited (hereinafter known as 'BIPL or the 'Company') have been reaffirmed and removed from being placed under 'Credit Watch with negative implications (CWN)'. The ratings of BIPL were placed on credit watch with negative implications following the disclosure made by DB Corp Limited (DBCL) 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. There has been no further development with respect to the IT search carried out in July 2021, post which ratings of DBCL were removed from credit watch. CARE Ratings factors management articulation that the outcome will not have any material impact on the operations and financial position of the company.

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. The ratings also factor in the company's improved performance witnessed during FY22 (refers to the period April 1 to March 31) and Q1FY23. 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.

### Outlook: Stable

The Company has a stable outlook assigned on the basis of CARE Ratings' expectations that the company's business operations would continue to demonstrate the growth trajectory witnessed during FY22 and Q1FY23 post easing of COVID-19.

### 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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

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 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, 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.

### **Growth in performance during FY22**

TOI of BIPL reported growth of 91% y-o-y in FY22 to Rs.726.52 crore (Rs.379.85 crore) owing to pent-up demand in the textile segment and increase in export sales. Further, during Q1FY23, BIPL reported TOI of Rs.228.66 crore. BIPL's PBILDT also improved to 10.27% in FY22 as compared to 8.63% in FY21 with increase in scale of operations and backed by upgradation capex undertaken by the company. PAT margins also improved to 4.18% in FY22 from 1.23% in FY21 owing to increasing in scale of operations.

### **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 deteriorated marginally as compared to last year as company has undertaken capex, but remained moderate at 0.60x (0.46x in FY21). BIPL undertook upgradation capex of Rs.110 crore, funded through a mix of debt-equity ratio of 2.67x. owing to same, overall gearing deteriorated marginally.

Debt coverage indicators improved during FY22, owing to improvement in operating margins post upgradation capex undertaken. Total debt to GCA improved to 4.21x for FY22 (PY: 7.85x), while interest coverage stood at 3.98x for FY22 (PY: 1.82x).

#### **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 improved from 219 days in FY21 to 125 days in FY22. The improvement was on account of decrease in collection days from 147 days in FY21 to 75 days in FY22. But operating cycle stood high, though improved which results in working capital intensive nature of operations which is reflected in high utilization of working capital limits. Average working capital utilization stood at ~88% during the past 12 months ended July-2022.

#### **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 COVID19 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. 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 3 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 94% to its sales in FY22. 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.10.92 crore and current ratio at 1.59x as on March 31, 2022. Company's working capital limits were utilized with an average of 88% for last 12-month period ending in July-22, providing little cushion for meeting any incremental working capital requirement in near term. Company has enough cash accruals vis-a-vis scheduled repayments. 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)	March 31, 2021 (A)	March 31, 2022 (Prov.)	Q1FY23 (Prov.)
Total operating income	379.85	726.52	228.66
PBILDT	32.79	74.60	17.98
PAT	4.68	30.34^	11.34
Overall gearing (times)	0.46	0.60	NA
Interest coverage (times)	1.82	3.98	3.12

A: Audited, Prov.: Provisional, NA: Not Available; ^Income tax rate assumed at 25%.

**Status of non-cooperation with previous CRA:** None

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-BG/LC		-	-	-	15.00	CARE A3
Fund-based - LT-Cash Credit		-	-	-	123.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	June, 2026	120.50	CARE BBB; Stable
Fund-based - ST-Vendor financing		-	-	-	15.00	CARE A3
Fund-based - LT-Bill Discounting/ Bills Purchasing		-	-	-	25.00	CARE BBB; Stable

#### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-BG/LC	ST	15.00	CARE A3	-	1)CARE A3 (CWN) (03-Feb-22) 2)CARE A3 (CWN) (04-Aug-21)	1)CARE A3 (08-Jan-21)	1)CARE A3+ (02-Jan-20)
2	Fund-based - LT-Cash Credit	LT	123.00	CARE BBB; Stable	-	1)CARE BBB (CWN) (03-Feb-22) 2)CARE BBB (CWN) (04-Aug-21)	1)CARE BBB; Stable (08-Jan-21)	1)CARE BBB+; Stable (02-Jan-20)
3	Fund-based - LT-Term Loan	LT	120.50	CARE BBB; Stable	-	1)CARE BBB (CWN) (03-Feb-22) 2)CARE BBB (CWN) (04-Aug-21)	1)CARE BBB; Stable (08-Jan-21)	1)CARE BBB+; Stable (02-Jan-20)

4	Fund-based - ST-Vendor financing	ST	15.00	CARE A3	-	1)CARE A3 (CWN) (03-Feb-22) 2)CARE A3 (CWN) (04-Aug-21)	1)CARE A3 (08-Jan-21)	-
5	Fund-based - LT-Bill Discounting/ Bills Purchasing	LT	25.00	CARE BBB; Stable	-	1)CARE BBB (CWN) (03-Feb-22) 2)CARE BBB (CWN) (04-Aug-21)	1)CARE BBB; Stable (08-Jan-21)	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/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 instruments:** CARE Ratings 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](mailto:care@careedge.in) for any clarifications.

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### About us:

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