

## Bhagyanagar India Limited (Revised)

January 06, 2023

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	64.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	42.00 (Enhanced from 37.00)	CARE A3+ (A Three Plus)	Reaffirmed
Long Term Bank Facilities - (Term Loan)	-	-	Withdrawn
<b>Total Bank Facilities</b>	<b>106.00</b> <b>(₹ One Hundred Six Crore Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of Bhagyanagar India Limited (BIL) continues to derive strength from an experienced promoter group with a long-established track record of operations, significant improvement in total operating income during FY22 (refers to the period April 01 to March 31) and stable growth in H1FY23, strong and established brand name with reputed clientele, improved operating cycle and stable industry growth prospects. The rating strengths are, however, partially offset by thin profitability in FY22 and H1FY23, moderate capital structure and coverage indicators, volatile raw material prices and forex risk, high competition, and inherent cyclicality of the copper industry.

CARE Ratings Ltd. has withdrawn the rating assigned to the Long-Term Bank facilities (Term Loan) of Bhagyanagar India Limited with immediate effect, as the company has repaid the term loan in full, and no amount is outstanding under the facility as of date.

### 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/downgrade:

- Working capital cycle stretching beyond 90 days thereby impacting the liquidity position of the company
- 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 a focus on areas of Telecommunications, Copper rods, Copper Pipes, Copper Sheets, Copper Foils and Power Cables, Wind Power, and Solar Power generation. Bhagyanagar India Limited (BIL) was founded by Mr. G M Surana in 1985 and is the Chairman and head of the Surana Group of companies based out of Hyderabad. He is a graduate of Commerce and Law from Osmania University having about two decades of experience in the Ferrous and Non-Ferrous metal industry. The business operations are well supported by a 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 copper products due to which the company is successful in developing long-term relationships with major players in automobile and electrical segments. A few of the customers of BIL include Vedanta Limited, Lucas- TVS, Fine cab Wires and Cables Private Limited, Valeo products LLP and Ecolite Wire Pvt Ltd among others. Further, the client base of the company is also highly diversified with the top five customers together contributing only to 23.16% of the TOI in FY22 (PY: 22.62%). Further, Lucas TVS Limited is a major customer of the company and has been doing business with the group for more than six years.

**Improved scale of operations in FY22 and H1FY23:** The total operating income of the company increased from Rs.787 crore in FY21 to Rs.1574 crore in FY22 registering y-o-y growth of 99.80% on account of high demand from the market along with an increase in the prices of the copper (raw material). BIL derived 99% of the revenue from the copper division. BIL also operates a wind power plant in Karnataka State. BIL has entered into Power Purchase Agreement (PPA) for the entire capacity

<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

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 the export market as well and derived around 30% of revenue from export sales.

In H1FY23, BILs TOI continued to remain stable at Rs.753 crore which is higher by ~12% compared to the corresponding period of the previous year. With moderation in raw material prices, BILs profitability increased with PBILDT of Rs.11.30 crore. However, with an increase in interest expense and depreciation costs, PAT stood at Rs.1.40 crore as against Rs.5.17 crore in H1FY22.

**Improved operating cycle during FY22:** The operating cycle of the company improved from 54 days in FY21 to 36 days in FY22 on the back of improvement in the inventory days from 33 days in FY21 to 22 days in FY22. The inventory level was high during FY19 and FY20 on account of the purchase of inventory in bulk by the company as the raw material was available at lower prices.

**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 period 2021-2025. Factors such as rising copper annual capacity in renewable energy, growing use of copper in smart home appliances, expansion of the construction industry, increasing manufacturing of electrical equipment and growth in scrap copper supply would drive the growth of the industry. Copper is considered 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**

**Volatile raw material prices result in thin profitability:** The primary raw materials for the company are copper scrap. Copper scrap contributes around 90% of the total raw material cost consumed during the past three years ended FY22, the scrap is purchased at the prevailing market rate depending on the quality of scrap. Copper prices are highly volatile and depend on several international economic parameters. The 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 ensure stable profitability margins. Also, the company operates in a competitive industry which imposes further pressure on its profitability margins. The PBILDT margin of the company continues to remain thin at 1.92% in FY22 (PY:2.35%). Nevertheless, the PAT margin marginally increased from 0.44% in FY21 to 0.70% in FY22 on the back of a reduction in interest cost with lower ROI charged by banks.

**Moderate capital structure and coverage indicators:** The capital structure of the company remained moderate as on March 31, 2021. The overall gearing ratio deteriorated from 1.22x as on March 31, 2021, to 1.30x as on March 31, 2022, on account of higher outstanding working capital bank borrowings as on the closing balance sheet dated March 31, 2022, coupled with an increase in unsecured loans and GECL loans of Rs. 31.66 crores. However, the coverage ratio of the company marked by total debt/GCA improved from 15.65x in FY21 to 11.37x in FY22. The PBILDT interest coverage ratio improved from 2.23x in FY21 to 2.55x in FY22 with better operational profits and lower interest expenses.

**Forex Risk; albeit hedge exists:** BIL imported around 33% of raw materials and have export sales of 25% in FY22 which exposes it to forex fluctuation risk. Nevertheless, the company has a 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.

### **Liquidity analysis: Adequate**

The company is generating sufficient accruals to meet its debt obligations. The company has projected a gross cash accrual of Rs. 12.01 crore as against a debt repayment obligation of around Rs 6.00 crore for FY23. The company has successfully repaid the COVID loan of Rs. 5.00 crore in FY22. The liquidity is supported by the above unity current ratio at 1.54x and unutilized working capital limits of around 40%.

### **Analytical approach: Consolidated**

CARE has analysed 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](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

[Non Ferrous Metal](#)

[Consolidation](#)

[Policy on Withdrawal of Ratings](#)

### **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 a wide range of copper products with an installed capacity of 15,000 MT per annum. The company caters to various Original Equipment Manufacturers (OEMs) and players in the 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (Prov.)
Total operating income	787.36	1,573.63	753.17
PBILDT	18.74	30.16	15.71
PAT	3.48	11.08	5.17
Overall gearing (times)	1.22	1.30	NA
Interest coverage (times)	2.25	2.55	2.82

A: Audited; Prov.: Provisional, NA: Not Available

**Status of non-cooperation with previous CRA:** Not Applicable

**Rating history for the last three years:** Please refer to 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	64.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	-	0.00	Withdrawn
Fund-based - ST-Line of Credit		-	-	-	25.00	CARE A3+
Fund-based - ST- Standby Line of Credit		-	-	-	2.00	CARE A3+
Non-fund-based - ST- Working Capital Limits		-	-	-	15.00	CARE A3+

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

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ 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	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (18-Feb-20) 2)CARE BBB; Negative (23-Oct-19)
2	Fund-based - LT-Cash Credit	LT	64.00	CARE BBB; Stable	-	1)CARE BBB; Stable (03-Dec-21) 2)CARE BBB; Stable (08-Nov-21) 3)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)

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		Type	Amount Outstanding (₹ 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
3	Fund-based - ST- Standby Line of Credit	ST	2.00	CARE A3+	-	1)CARE A3+ (03-Dec-21) 2)CARE A3+ (08-Nov-21) 3)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)
4	Fund-based - ST-Line of Credit	ST	25.00	CARE A3+	-	1)CARE A3+ (03-Dec-21) 2)CARE A3+ (08-Nov-21) 3)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)
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)
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+ (03-Dec-21) 2)CARE A3+ (08-Nov-21) 3)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	-	-	-	1)CARE BBB; Stable (03-Dec-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-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**

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 based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

**Contact us****Media Contact**

Name: Mradul Mishra  
Phone: +91-22-6754 3596  
E-mail: [mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in)

**Analyst Contact**

Name: Y Tejeshwar Reddy  
Phone: 9849573699  
E-mail: [Tejeshwar.Reddy@careedge.in](mailto:Tejeshwar.Reddy@careedge.in)

**Relationship contact**

Name: Ramesh Bob Asineparthi  
Phone: +91 90520 00521  
E-mail: [ramesh.bob@careedge.in](mailto:ramesh.bob@careedge.in)

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