

Bhagyanagar India Limited

May 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	50.00 (Enhanced from 43.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	38.00 (Enhanced from 28.00)	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	88.00 (Rs. Eighty-Eight 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) is on account of satisfactory financial performance in 9MFY21, stable scale of operation albeit decline in profitability during FY20 (FY refers to time period between April 01 to March 31) coupled with comfortable leverage and coverage indicators. The ratings continue to remain underpinned by the experienced promoter group, long proven track record of operation, reputed clientele, and stable industry growth prospects. The rating strengths are however partially offset by thin profitability margins, moderately elongated inventory holding period, volatile global copper prices, foreign exchange fluctuation risk and competitive nature of industry. The ratings also take cognizance of impact of COVID-19 pandemic on the operational performance of the company.

Rating Sensitivities

Positive Factors- Factors that could lead to Positive Rating Action/Upgrade

- ✓ Improvement in the PBILDT margin above 4% coupled with sustainable increase in TOI (consolidated)
- ✓ Ability of the company to efficiently manage its inventory levels resulting in operating cycle less than a month

Negative Factors- Factors that could lead to Negative Rating Action/Downgrade

- ✗ Adverse impact of global copper price movements on the profitability of the company resulting in PBILDT margin falling below 2% (consolidated), in future years.
- ✗ Deterioration in the overall gearing to more than 1.30x (consolidated), going forward.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and a part of well established “Surana Group”

Bhagyanagar India Limited (BIL) was founded by Mr. G M Surana in 1985. Mr. G M Surana is the Chairman and head the Surana Group of companies based out of Hyderabad. The Managing Director of BIL; Mr. Devendra Surana (son of Mr. G M Surana) is a Mechanical Engineer from Osmania University and holds a Post Graduate Diploma in Management from IIM, Bangalore. He has been in the field of Ferrous & Non-Ferrous & Telecom Industry for the more than a decade. The board of Directors of BIL is diversified with four independent directors and two whole time directors who are highly respectable professionals in their area of expertise

BIL belongs to a well-established Hyderabad based group viz. “Surana group”. Founded in 1978, the Surana Group is a well-diversified business conglomerate with presence across sectors like Telecommunications, Copper products, Real estate, Wind Power generation, Solar Power generation and related EPC activities. The company benefits from the overall synergies derived from the other group entities and established group name.

Proven track record of operations

Being one of the oldest copper product manufacturing company with over three decades of experience, BIL has been able to establish itself as one of the leading players in the copper products. The company manufactures a wide range of copper products including value added products. Its product portfolio includes copper bus-bars, flats, paper insulated copper conductors, auto commutators, copper nuggets, copper foils, copper tubes, copper wires and rods among others. Looking at the trend of electric automobile demand, going forward the company plans to develop products that are used in electrical vehicles to increase its product portfolio.

Reputed Customer Base

With demonstrated business acumen and high-quality products BIL has successfully established itself as one of the major producers of copper products in the industry. The company has developed long term relationships with major OEM (Original Equipment Manufacturer's) players in automobile, ad electrical sectors. The company receives regular orders from these customers depending upon the demand in particular industry. Few of the customers of BIL include Lucas- TVS, Fine cab Wires and Cables Private Limited, HBL Power System Limited, Valeo products LLP, Esennar Transformers Pvt Ltd.

Stable operating income albeit softened profitability margins in FY20

The total operating income (TOI) for the company in FY20 broadly remained stable with a marginal y-o-y decline of 1.21% on account of muted demand from the automobile industry coupled with loss of nine business days during the month of March 2020 due to COVID induced lockdown. On account of increase in the power costs led by unfavorable tyre oil prices, PBDILT margin for the company declined from 3.49% in FY19 to 2.77% in FY20. Nevertheless, Bhagyanagar Copper Private Limited (BCPL; wholly owned subsidiary of BIL) commenced its full-fledged operations during FY20 and booked a revenue of Rs 143.35 crore on a standalone basis. BCPL is expected to contribute more to the overall revenue and profitability of the group, going forward. During 9MFY21 period the company achieved a TOI of Rs 492.73 crore as compared to Rs 396.02 crore achieved during 9MFY20.

Healthy capital structure

Overall gearing of the company has improved from 0.93x as on March 31, 2019 to 0.54x as on March 31, 2020 at the back of decreased dependency on working capital borrowings and part repayment of term loans. Also, repayments of term debt availed for setting up at plant w.r.t Bhagyanagar Copper Private Limited has begun which has further resulted in decrease in overall debt levels.

Key Rating Weakness**Elongated inventory holding**

As on March 31, 2020, the operating cycle of the company elongated to 70 days (PY: 56 days) due to increase in average inventory period to 51 days (PY: 44 days). As the company needs to maintain sufficient levels of raw material and finished inventory given the fluctuating copper prices and lead time involved in imports, thereby resulting in high inventory holding. However, the debtor period continues to remain satisfactory at 23 days as on March 31, 2020 (PY: 20 days).

Volatility in the global copper market and forex risk

Copper and copper scrap forms the major raw materials for the company. The copper prices have been volatile thereby impacting the profitability margins of the company. Copper prices have been mostly on a declining trend during FY20 at the back of US-China trade tensions. Further, BIL is also exposed to forex risk as some of the raw material is imported against which there is no export sales. The raw material imports formed around 21% of the total raw material cost against no export sales. However, the company normally hedges almost 70% to 80% of the inventory on the MCX thereby insulating it from such volatility to certain extent.

Competitive nature of Industry

The copper industry is highly fragments with the presence of both organized and unorganized players in the downstream providing similar products/ services. Nevertheless, the share of organized players have been increasing post GST implementation. However, BIL has relatively lower bargaining power owing to the competitive nature of the industry.

Impact of Covid-19

With the gradual relaxation of COVID induced lockdown restrictions and permission by the Government to resume operations; the factories and offices of BIL gradually re-commenced operation from May, 2020. The operations of the company were shut for about 49 days. The company hires labour from the local areas near the factory and hence it did not witness any major issues with respect to migration of workers. The company also undertook various cost reduction measures by maintaining minimum stocks of raw materials or purchasing the raw materials only when prices were favorable etc.

Although, the company incurred a net loss in Q4FY20 and witnessed a lukewarm performance during Q1FY21, with resumption of operations and increase in demand, the performance of the company witnessed improvement during Q2&Q3FY21.

Industry Outlook

Global copper demand growth in FY2020 has been weaker than expected, reflecting a deterioration in the global macro-economic landscape. The prices decline due to weak demand amidst china and US China trade dispute, supply chain de-stocking. Ex-China demand has remained weak from auto, electronics and consumer goods sectors. Average LME copper prices decreased by 8% compared with FY2019. Goldman Sachs International is anticipating a further rise in copper prices to USD 10,000 per tonne by 2022, from the current levels of slightly above USD 7,600 per tonne.

Liquidity analysis: Adequate

The liquidity position of the company is adequate with sufficient cash accruals vis-a-vis repayment obligations. The reliance on working capital limits have been low with an average utilization at 57% for the twelve-month period ended October, 2020. The capex requirement of the company is modest for which it has sufficient headroom. The liquidity is further supported by an above unity of current ratio and positive cash flows from operations as on March 31, 2020. BIL and BCIL did not avail moratorium for debt repayment, however, SBI had provided blanket approval for moratorium and hence no interest was charged by SBI from BIL for six months i.e. from March, 2020 to August, 2020, the dues were however repaid in full during September, 2020.

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

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

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

[Financial ratios –Non-Financial Sector](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology -Manufacturing Companies](#)

[Rating Methodology: Consolidation](#)

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 primarily engaged in the business of manufacturing of wide range of copper product. The company has its manufacturing unit located in Nacharam, Hyderabad with an installed capacity of 15000 Metric tonnes (MT) per annum.

Bhagyanagar Copper Private Limited (BCPL; erstwhile Aanvik Mercantile Private Limited) was incorporated in April 2008. 100% holding of BCPL was acquired by Bhagyanagar India Limited (BIL) in February 2018. Under BCPL, the group has set up copper plant with an installed capacity of 4000 MT and BCPL commenced its commercial operations from March, 2019.

Brief Financials (Rs. crore) (Consolidated)	FY19 (A)	FY20 (A)
Total operating income	569.95	563.04
PBILDT	19.91	15.62
PAT	6.34	1.04
Overall gearing (times)	0.93	0.54
Interest coverage (times)	2.60	1.64

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	50.00	CARE BBB; Stable
Fund-based - ST-Standby Line of Credit	-	-	-	6.00	CARE A3+
Fund-based - ST-Line of Credit	-	-	-	10.00	CARE A3+
Non-fund-based - ST-Letter of credit	-	-	-	7.00	CARE A3+
Non-fund-based - ST-Working Capital Limits	-	-	-	15.00	CARE A3+

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	50.00	CARE BBB; Stable	-	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	6.00	CARE A3+	-	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	10.00	CARE A3+	-	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	7.00	CARE A3+	-	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+ (28-Dec-20)	1)CARE A3+ (18-Feb-20) 2)CARE A3+ (23-Oct-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA
Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - ST-Line of Credit	Simple
3.	Non-fund-based - ST-Letter of credit	Simple
4.	Non-fund-based - ST-Working Capital Limits	Simple

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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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.

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