

Bhaskar Industries Private Limited

January 08, 2021

Ratings

Bank Facilities	Amount (Rs. crore)	Rating	Rating Action
Long-term - Term Loan	120.50 (enhanced from 80.84)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Long-term fund based bank facilities	148.00 (enhanced from 118.00)		
Short-term fund based bank facilities	15.00	CARE A3 (A Three)	Assigned
Short-term-Non-Fund Based-ST-LC/BG	15.00 (reduced from 20.00)		Revised from CARE A3+ (A Three Plus)
Total	298.50 (Rs. Two hundred ninety eight crore and fifty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision of 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 (DBCL, rated CARE AA+; Stable/A1+) 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 December 23, 2020 stood at Rs. 1,432 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 witnessed water logging at factory premises which led to damages of inventory and plant & machinery. The assessment of damages/repair/replacements of the plant & machineries is still underway which is expected to be settled by the insurance claim. As per the management, the weaving capacity has fully resumed, whereas, spinning capacity (primarily used for captive consumption) has partially resumed and is expected to be fully operational by end of FY21. The management expects the entire process of insurance claim settlement to 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

Applicable Criteria

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

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

[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 (DBCL, rated CARE AA+; Stable/A1+) 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; NM: Not Meaningful

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
Fund-based - LT-Cash Credit	-	-	-	123.00	CARE BBB; Stable
Fund-based - LT-Term Loan	-	-	March-26	88.50	CARE BBB; Stable
Proposed Fund-based - LT-Term Loan	-	-	-	32.00	CARE BBB; Stable
Fund-based - ST-Vendor financing	-	-	-	15.00	CARE A3
Fund-based - LT-Bills discounting/ Bills purchasing	-	-	-	25.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	15.00	CARE A3	-	1)CARE A3+ (02-Jan-20)	1)CARE A3+ (10-Dec-18)	1)CARE A3+ (28-Dec-17)
2.	Fund-based - LT-Cash Credit	LT	123.00	CARE BBB; Stable	-	1)CARE BBB+; Stable (02-Jan-20)	1)CARE BBB+; Stable (10-Dec-18)	1)CARE BBB+; Stable (28-Dec-17)
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (10-Dec-18)	1)CARE BBB+; Stable (28-Dec-17)
4.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (10-Dec-18)	1)CARE BBB+; Stable (28-Dec-17)
5.	Fund-based - LT-Term Loan	LT	120.50	CARE BBB; Stable	-	1)CARE BBB+; Stable (02-Jan-20)	1)CARE BBB+; Stable (10-Dec-18)	1)CARE BBB+; Stable (28-Dec-17)
6.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (28-Dec-17)
7.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (28-Dec-17)
8.	Fund-based - ST-Vendor financing	ST	15.00	CARE A3	-	-	-	-
9.	Fund-based - LT-Bills discounting/ Bills purchasing	LT	25.00	CARE BBB; Stable	-	-	-	-

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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