

Besco Limited

November 15, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	11.73	CARE C; ISSUER NOT COOPERATING* (Single C ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE B-; Stable; (Single B Minus; Outlook: Stable)
Short Term Bank Facilities	2.77	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category
Total Bank Facilities	14.50 (₹ Fourteen Core and Fifty Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE had, vide its press release dated June 12, 2020, placed the rating(s) of Besco Limited (BL) under the 'issuer non-cooperating' category as BL had failed to provide information for monitoring of the rating for the rating exercise as agreed to in its Rating Agreement. BL continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a letter/email dated July 31, 2022, July 21, 2022, July 11, 2022. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings assigned to the bank facilities of BL have been revised on account of non-availability of requisite information.

Detailed description of the key rating drivers

At the time of last rating on August 25, 2021, the following were the rating strengths and weaknesses.

Detailed description of the key rating drivers

Key rating weaknesses

Deterioration in financial performance in FY18: The company reported 77% decline in total operating income from Rs.48.29 crore in FY17 to Rs.11.02 crore in FY18. The company reported loss on absolute PBILDT level and has serviced its interest obligations from short term loans and advances.

Moderation in capital structure: The overall gearing ratio of the company deteriorated from 0.38x as on March 31, 2017 to 0.60x as on March 31, 2018 due to depletion of reserves as a result of losses incurred.

Small scale of operations: The operation of the company is small in size with total capital employed of Rs.16.98 crore as on Mar 31, 2018. The small size restricts the financial flexibility of the division in times of stress and it suffers on account of economies of scale.

Susceptibility of operating margin to volatility in raw material prices: Raw material is the major cost component. Major raw materials used in the manufacturing process are scrap, ferro alloys and components. Since there is no long term arrangement for sourcing the same, the company is exposed to the risk of raw material price volatility. However, the risk of price volatility is reduced to an extent due to escalation clause embedded in the contracts.

Customer concentration risk: BESCO Ltd. (Foundry division) is supplying about 90%-95% of its production to Indian Railways (IR) both directly and indirectly. Extensive reliance on IR to procure business exposes to high client concentration risk. Any delay in releasing order for manufacturing by the IR may significantly affect the scale of operations.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Low profitability: Tender based contract awarding system tends to keep low operating margin. Accordingly, the profit margin continued to remain thin over the past years due to its low bargaining power attributable to its small scale of operations and dependence on Indian Railways orders.

Working capital intensive nature of operation: BESCO Ltd. (Foundry division) operations are working capital intensive in nature as it needs to maintain inventory of many items to ensure prompt supply of the same for manufacturing of railway wagons. The manufacturing process of wagons is time consuming which results in high WIP inventory. Further, release of money from IR takes about 90 to 100 days from dispatch of wagons.

On-going legal dispute: After a family settlement in December 2004, followed by a Company Law Board (CLB) order in April, 2006, the foundry division came into the faction of Mr. A.K. Tantia (AKT group) and wagon division went to the faction of his elder brother Mr. O.P Tantia (OPT group). CLB had specified in its order in April, 2006 that both the parties (i.e. Mr. O.P. Tantia and Mr. A.K. Tantia) will be responsible for completion of statutory audit jointly of their respective divisions hitherto fore under their control by June 30, 2006. However, formal demerger has not taken place and only physical demerger of the divisions were completed as per the certificate dtd June 10, 2006 submitted by the Special Officer (appointed by CLB) to the Chairman of CLB.

Key rating strengths

Experienced promoters: Incorporated in 1928, BESCO Ltd. is a railway equipment manufacturer, catering to the requirements of the Indian Railways and other Railway systems globally. The company was divided in 2006, into Foundry and Wagon divisions. The day-to-day affairs of BESCO Ltd. (Foundry Division) is looked after by Mr. A.K. Tantia, who has an experience of over 44 years in manufacturing of railway equipment by virtue of his association with BESCO Ltd., and his son Mr. S. Tantia, who also has an experience of about two decades in such field.

High entry barrier in wagon manufacturing industry: Indian wagon manufacturing industry is entirely controlled by the Indian Railways. It is very difficult for new entrants to get required approvals of Research Design and Standard Organization (RDSO) of IR in view of its stringent norms and procedures; thus, providing a competitive advantage to the existing players.

Low counter party risk: IR being a GoI enterprise, risk of counterparty default of payment of receivables remains very low.

Analytical approach: Standalone

Applicable criteria

[Policy in respect of Non-cooperation by issuer](#)

[Policy on default recognition](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the company

Incorporated on December 13, 1928, as The Hukumchand Electric Steel Company Ltd., the name of the company was changed to Bhartia Electric Steel Company Ltd. in 1941 and finally to BESCO Ltd. in 1993. BESCO Ltd. is a railway equipment manufacturer, catering to the requirements of the Indian Railways (IR). It is one of the oldest wagon manufacturers with a captive foundry division in India.

After a family settlement in December 2004, followed by a Company Law Board (CLB) order in April, 2006, the foundry division came into the faction of Mr. A.K. Tantia (AKT group) and wagon division went to the faction of his elder brother Mr. O.P Tantia (OPT group). However only physical demerger of the divisions were completed as per the certificate dtd June 10, 2006 submitted by the Special Officer (appointed by CLB) to the Chairman of CLB. Accordingly both the companies - BESCO Ltd. (Foundry division; belonging to AKT Group) and BESCO Ltd. (Wagon division; belonging to OPT group) are operating separately. Since the physical demerger, AKT group has been operating BESCO Ltd. (Foundry Division), which is engaged in manufacturing of steel casting products (bogies, couplers, draft gears, crossings, side buffers and coil springs) with a plant capacity of 14,000 MTPA in Baruiipur, Kolkata. The division also has a unit in Faridabad where steel to rubber bonded components are manufactured.

Brief Financials (₹ crore)	March 31, 2017 (A)	March 31, 2018 (A)	FY19/FY20/FY21/FY22/H1FY23
Total operating income	48.39	11.05	NA
PBILDT	1.92	-1.68	NA
PAT	0.44	-6.71	NA
Overall gearing (times)	0.38	0.60	NA
Interest coverage (times)	1.13	-0.93	NA

A: Audited

Status of non-cooperation with previous CRA: Nil**Any other information:** Nil**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
Fund-based - LT-Cash Credit		-	-	-	11.73	CARE C; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantee		-	-	-	2.77	CARE A4; ISSUER NOT COOPERATING*

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-Cash Credit	LT	11.73	CARE C; ISSUER NOT COOPERATING*	-	1)CARE B-; Stable; ISSUER NOT COOPERATING* (25-Aug-21)	1)CARE B; Stable; ISSUER NOT COOPERATING* (12-Jun-20)	-
2	Non-fund-based - ST-Bank Guarantee	ST	2.77	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4; ISSUER NOT COOPERATING* (25-Aug-21)	1)CARE A4; ISSUER NOT COOPERATING* (12-Jun-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities**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	Non-fund-based - ST-Bank Guarantee	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 for any clarifications.

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