

Bengal & Assam Company Limited

June 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Issuer rating	0.00	CARE AA-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to Bengal & Assam Company Limited (BACL) continues to take into account its financial flexibility emanating from the significant market valuation from the holding of JK group companies (around ₹8,979 crore as on June 12, 2023) and its strategic holdings in non-listed group companies with adequate coverage in terms of market value of holding to outstanding debt of 53.44x as on June 12, 2023. The rating also factors in the company's status as the investment holding company for the JK group companies and the exhibited track record of dividend income from the group companies. The rating continues to derive strength from the experienced promoters and management team, strong investment profile of BACL and healthy asset quality. The ratings also factor in the expectation of limited incremental financial support to key investee companies and the management's guidance to limit the consolidated external borrowings within a reasonable range over the medium term. The rating is, however, constrained by BACL's dependence on dividend income and limited revenue stream. The future prospects of BACL are highly dependent on the performance of the group companies in which it has significant investments.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Enhancement in in the financial flexibility of BACL emanating from the significant market valuation from the holding of the shares in its group companies along with the improvement in the credit profile of the underlying entities with no significant increase in the borrowings of BACL on a sustained basis going forward.

Negative factors

- Any substantial reduction in the market value of the investments held by BACL in the group companies adversely impacting the liquidity and financial flexibility of BACL.
- Substantial increase in total debt availed and further support given to the group companies which leads to significant deterioration in the capital structure of BACL or its MV to debt multiplier.

Analytical approach: Standalone

The rating assigned takes into account BACL's financial flexibility emanating from the significant market valuation from the holding of JK group companies and its strategic holdings in non-listed group companies with adequate coverage in terms of market value of holding to outstanding debt.

Outlook: Stable

The Stable outlook on the rating reflects CARE's belief that BACL will continue to benefit from the significant market value buffer on their investments in JK Group companies along with stable dividend income, thereby helping them maintain their healthy credit profile and financial flexibility.

Detailed description of the key rating drivers:

Key strengths

Holding company of established industrial house and strong investment profile

BACL majorly holds investment in almost all the group companies of the JK group, which was founded in the year 1918. The group is actively working in the core sectors of cement, paper, automotive tyre, sugar, agri-products, etc. The group has established a reputed image and brand name over the years through its various group companies. BACL held approximately 97%

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

of its total assets in the form of investments in equity share and preference share capital, subsidiaries and group companies, listed companies and unlisted companies as on March 31, 2023. The company has notable stake in prominent group companies, including JK Lakshmi Cement Ltd. (JKLC rated 'CARE AA; Stable/CARE A1+'), JK Tyre & Industries Ltd. (JKTIL rated 'CARE A; Stable/CARE A1'), JK Fenner (India) Ltd., JK Paper Ltd, JK Agri Genetics Ltd. (JKAL rated 'CARE A-; Stable/CARE A2'), Umang Dairies Ltd., and Divyashree Company Ltd. (together forming approximately 82% of the total assets as on March 31, 2023), in the form of investment in equity; thus reflecting the strong investment portfolio of the company. JKLC, engaged in cement business since year 1982, has strong presence in the cement industry, especially in the northern and western markets of India under brand name of 'JK Lakshmi Cement'. JKTIL has been engaged in the tyre industry since year 1975 and is among the leading tyre manufacturers in India. JK Paper Ltd (JKPL), incorporated in 1960, is also one of the prominent players in the Indian paper and paper boards industry, while JK Fenner (India) Ltd. has an established position in power solutions and sealing industry.

Large market value of holdings in various JK group companies

BACL holds significant investments in the form of listed shares of major JK Group Companies, including JK Tyre and Industries, JK Lakshmi Cement Limited, JK Paper Limited, JK Agri Genetics Limited etc., which provide adequate financial flexibility. As against the book value of investment of these investments of ₹867.03 crore (75% of the total investment as on March 31, 2023), the market value of such holding stood at around ₹8,979 crore as on June 12, 2023. As against this, the overall debt (which is availed only from the group companies) stood at ₹167.98 crore as on March 31, 2023, thus indicating adequate coverage in terms of market value of holding to outstanding debt of 53.44x and consequent ability to raise further debt if required. In addition to this, the management has also indicated that the total debt of the company including the group company debt is not likely to exceed ₹500 crore over the period of next two years. Any substantial reduction in the market value of the investments held by BACL in the group companies adversely impacting the liquidity and financial flexibility of BACL is a key rating sensitivity going forward.

Financial flexibility and healthy asset quality

The company has a robust capital structure with strong net worth base of ₹999.69 crore (PY: ₹893.42 crore) as on March 31, 2023. Its overall gearing stood comfortable at 0.17x as on March 31, 2023, vis-à-vis 0.20x as on March 31, 2022, and is expected to be 0.03x as on March 31, 2024.

Steady flow of revenue in the form of dividend income

Over the years, the company has been consistently deriving income majorly in the form of dividend income from its investments. During FY23 (refers to the period April 01 to March 31), the company recorded dividend income of ₹136.00 crore (78.50% of the total operating income). BACL derived interest income of ₹6.20 crore during FY23 vis-à-vis ₹7.84 crore during FY22. Apart from that, the company also derived revenue from the rental income.

Key weaknesses

Dependence on group companies for growth and possible support to promoter's acquisitions and growth plans

BACL held approximately 82% of the total assets (₹1,186.97 crore) as on March 31, 2023, in the form of investments in its group companies. With dividend being the major source of income for BACL, its future is directly linked to the performance of its group companies. Given the cyclical nature of industries like cement, tyre, paper, etc., in which the group is operating, any decline in the performance of those industries might affect the revenue stream of BACL and its debt repayment capacity. However, the presence of the group companies in various industries also diversifies BACL's investment portfolio to some extent and reduces its dependence on any one particular company. BACL, as the holding company for the JK group companies, is committed towards meeting any incremental investment requirements arising in the group companies for any expansion and growth plans of such companies. Moreover, with the group companies belonging to cyclical industries, any support extended may adversely affect the credit and financial risk profile of BACL. However, as guided by the management, BACL does not envisage any major investment or support extended to the group companies in the near time period.

Exposure to market-related risks

The exposure to the market-related risks persists, as financial flexibility, in terms of the cover available, depends, to some extent, on the prevailing market sentiments and share prices. Any increase in the market-related risks, leading to a sharp fall in the share prices of investments in JKAL, JKLC, JKTIL, etc., will be a key rating sensitivity.

Liquidity: Strong

The company has mutual fund balances of ₹31.02 crore (2.6% of the total assets) (PY: ₹25.17 crore) as on March 31, 2023. None of the shares of major JK group companies are pledged as on March 31, 2023, thus providing liquidity buffer to the company. Also, as per BACL's asset liability management (ALM) statement dated March 31, 2022, the company had no negative mismatches

in any of the buckets. In addition to this, the company had completely paid off bank facilities during FY21 and there is no outside debt obligation.

Assumptions/Covenants: NA

Environment, social, and governance (ESG) risks: NA

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios - Financial Sector](#)

[Factoring Linkages Parent Sub JV Group](#)

[Investment Holding Companies](#)

[Issuer Rating](#)

[Rating Outlook and Credit Watch](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Investment Company

About the company

Bengal & Assam Company Ltd (BACL) is the holding company for the JK group headed by Mr Bharat Hari Singhania as its Chairman. BACL was originally incorporated as Bengal & Assam Investors Ltd in 1947. The name of the company was changed to the present one in 1982. The company, registered as a Non-Deposit Taking Systematically Important Core Investment Company (CIC-ND-SI) with Reserve Bank of India (RBI), acts only as an investment holding company for the JK group companies and does not engage in lending to third parties outside the JK group. Being CIC-ND-SI, BACL is exempt from certain compliances of RBI like minimum requirement of net-owned funds and exposure norms. It has notable stake in group companies, such as JK Lakshmi Cement Ltd. (JKLC), JK Tyre & Industries Ltd. (JKTIL), JK Fenner (India) Ltd. (JKF), JK Agri Genetics Ltd (JKAGL) and JK Paper Ltd (JKPL). Furthermore, during FY19, the Board of Directors of BACL approved a scheme of arrangement between Florence Investech Ltd ('Florence'), BMF Investments Ltd ('BMF'), J.K. Fenner (India) Ltd ('FIL') and Bengal & Assam Co Ltd ('Transferee Company'), and their respective shareholders for amalgamation of Florence & BM.F ('Transferor Companies'), engaged in the same activity (holding companies), with the Transferee Co w.e.f. April 01, 2017 ('Appointed Date'). The Scheme came into effect after the approvals from Stock Exchange and sanction of National Company Law Tribunal (NCLT) on May 24, 2019. Furthermore, pursuant to the scheme taking effect, JK Tyre & Industries Ltd, JK Agri Genetics Ltd and Umang Diaries Ltd became the subsidiaries of Bengal & Assam Co Ltd from the appointed date.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	64.42	110.37	173.26
PAT	23.26	61.28	121.85
Interest coverage (times)	1.70	3.88	9.91
Total Assets	1,255.78	1,172.59	1,186.97
Net NPA (%)	0.00	0.00	0.00
ROTA (%)	1.86	5.05	10.33

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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: Annexure-4

Lender details: Annexure-5

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
Issuer Rating-Issuer Ratings		-	-	-	0.00	CARE AA-; 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 (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)CARE A+; Stable (15-Dec-20) 2)Withdrawn (15-Dec-20)
2	Issuer Rating-Issuer Ratings	Issuer ratings	0.00	CARE AA-; Stable	-	1)CARE AA-; Stable (26-Dec-22) 2)CARE AA- (Is); Stable (21-Jun-22)	1)CARE AA- (Is); Stable (21-Jun-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities- Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Issuer Rating-Issuer Ratings	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the 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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About us:

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