Bhageria Industries Limited

September 15, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	91.00 (Enhanced from 76.00)	CARE A; Negative / CARE A1	Revised from CARE A+; Stable / CARE A1+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Bhageria Industries Limited (BIL) factors in the subdued operational performance in FY23 and Q1FY24 on the back of adverse industry scenario.

The ratings continue to derive strength from its experienced promoters, long and established track record of operations in dye-intermediate and pigment industry, having well established backward integrated manufacturing operations as well as long-term relationship with some of the reputed clientele and diversified revenue profile in terms of product mix. The ratings also derive comfort from long-term Power Purchase Agreement signed for its solar power sale with a strong counterparty. Besides, the ratings also derive comfort from the comfortable leverage and coverage indicators characterised by large networth base, low leverage, healthy debt coverage indicators and strong liquidity position.

The ratings however continue to be tempered by the company's weak operational performance reflected in moderation in the PBLDT profitability at 3.93% in FY23 as compared to 16.70% in FY22 and PBILDT losses reported at -3.13% in Q1FY24 from chemical segment. The ratings also factor in the moderate scale of operations with dependence on the end-user textile industry (which is currently facing headwinds), susceptibility of its operation to changes in environmental regulations, susceptibility of its operating profit margins to volatility associated with key raw materials and finished good prices along with foreign exchange fluctuation risk. The ratings also continue to factor in the risk of implementation and stabilization of the ongoing project and risk associated with adaptation of stringent environmental control norms of the government. Successful completion of the on-going capex funded from internal accruals within the envisaged time and cost parameters would be a key rating monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations marked by total operating income (TOI) of around ₹1,000 crore backed with diversified product mix
- Increase in PBILDT margin to around 25% on a sustained basis.
- Improvement in ROCE above 25% on a sustained basis

Negative factors

- Significantly lower-than-envisaged revenues or operating profitability margins falling to below 10% on sustained basis
- Larger-than-anticipated debt-funded capex or leveraged acquisition, leading to sustained and significant deterioration in its leverage to above 0.75x or significant stretch in working capital cycle.

Analytical approach: Standalone

Outlook: Negative

Negative outlook reflects BIL's ongoing subdued operating performance which is expected to continue in the near term on the back of subdued demand in the chemical segment. This is expected to adversely impact the cash flow generation. However, the outlook may be revised to stable on the back of revival in the chemical industry resulting into better operating/financial performance.

Detailed description of the key rating drivers:

Key strengths

Robust credit profile despite the weak operational performance

The leverage profile is marked by healthy net worth levels, low gearing, and strong debt protection metrics. Net worth was ₹ 504.41 crore as on March 31, 2023 (PY- ₹506.74 crore), while gearing was low at 0.11x in FY23 as compared to 0.10 times in FY22. Debt profile of the company primarily comprises of working capital loans. Debt coverage indicators stood at comfortable levels although moderated on y-o-y basis, marked by interest coverage reducing to 18x in FY23 as compared to 94.36x in FY22 owing to subdued operational performance. Total debt to gross cash accruals (TD/GCA) stood 1.18x in FY23 as compared to 0.53x in FY22 and total debt to profit before interest depreciation and tax (TD/PBIDT) stood at 1.01x in FY23 as compared to 0.42x in FY22.

Extensive experience of promoters in dyestuff industry

BIL incorporated in 1989, is promoted by Suresh Bhageria and Vinod Bhageria, who have over three decades of experience in dyes & dyes intermediates industry. The clientele includes some of the reputed domestic and global companies namely Everlight Chemical Industrial Corporation, Huntsman International (India) Pvt. Ltd etc. As a result of long-standing experience as well as

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

consistency in supply, BIL has been able to garner repeat orders from its existing clientele and at the same time has also added some large export customers in the past. BIL has moderate customer concentration whereby its top ten customer contribute around 55-60% of its total revenue from chemical division. The company will benefit from the extensive experience of the promoters and its long-standing relationship with clientele in future also.

Well-established backward integrated manufacturing operations
The operations of BIL are backward integrated with in-house manufacturing of most of its key dye intermediates. In dye intermediate segment, manufacturing capacity mainly comprises Vinyl Sulphone (VS) of 3,600 MTPA, H-acid of 4,800 MTPA and as a backward integration measure, BIL has setup a capacity to manufacture Sulphuric Acid (300 Tonnes Per Day). Furthermore, the company expanded in dye intermediates with capacity of 4,500 MTPA for manufacturing of J-Acid and Tobias Acid for which commercial operations commenced from May 27, 2021. Thus, with the introduction of new product to the portfolio, the product mix or revenue diversity of the company has improved.

Consistent revenue and profit contribution from its solar plant
BIL had entered into solar power generation in 2015 by commissioning about 3.78 MW of solar power capacity, most of which is at Chennai and has power purchase agreement (PPA) for 25 years at ₹6.61 per MW. Furthermore, BIL had also commissioned 30MW(AC) solar power plant in July 2017 at Ahmednagar, Maharashtra having entered in to 25-year PPA with Solar Energy Corporation of India (SECI; a company under Ministry of New and Renewable Energy, Government of India) at a fixed tariff of ₹4.41/unit. Consequent to stabilization of its solar power plants, there has been healthy revenue (~Rs. 27-30 crores) and profit contribution from solar division.

Key Weaknesses
Subdued operational performance in FY23 and Q1FY24 demand to be muted in mid term
BIL's TOI registered a y-o-y decline of around 16% and stood at ₹501.49 crore in FY23 as compared to ₹601.45 crore in FY22. The said decline was primarily due to lower offtake from the customers coupled with lower realisation. BIL has reported a y-o-y decline in operating profit which stood at ₹58.13 crore in FY23 as compared to ₹ 121.17 crore in FY22 whereas PBILDT margin stood at 10.88% in FY23 as compared to 20.15% in FY22. The said decline was primarily due to lower sales realization and an increase in the cost of production owing to fluctuation in the prices of raw materials. The return on capital employed (ROCE) indicators stood at 4.16% in FY23 as compared to 17.69% in FY22. During Q1FY24, BIL's TOI stood at ₹97.49 crores while PBILDT stood at 6.34% with gross cash accrual (GCA) of ₹8.99 crore. The operating performance remained subdued owing to macro headwinds faced by the industry owing to surge in commodity prices. Going forward, the company expects the performance to improve back to earlier levels on the back of stabilisation of commodity prices as well as improved demand outlook. Furthermore, achieving the envisaged operating margins is crucial and a key rating monitorable for the company.

Operations of the company susceptible to changes in environmental regulations
Since companies manufacturing dyes and dye intermediates generate a lot of hazardous substances and waste materials, they are subject to central, state, local and foreign laws and regulations relating to pollution, protection of the environment, greenhouse gas emissions, and the generation, storage, handling, transportation, treatment, disposal and remediation of these hazardous substances and waste materials. Costs and capital expenditures relating to environmental, health or safety matters are subject to evolving regulatory requirements and depend on the timing of the promulgation and enforcement of specific standards which impose the requirements. Moreover, changes in environmental regulations could inhibit or interrupt the operations of these companies or may require modifications to their facilities. Accordingly, environmental, health or safety regulatory matters could result in significant unanticipated costs or liabilities. Nevertheless, BIL is a member of Central Effluent treatment Plant, Taloja (CETP), Tarapur Environmental Protection Society (TEPS) and Mumbai Waste Management Limited, Taloja (MWML), and follows best in class process controls and systems.

Implementation and stabilization risk associated with the ongoing capex
The company has been involved in implementing a capex in three phases involving total outlay of around ₹114.16 crore which was envisaged to be incurred over FY19 to FY24 period. Phase 1 included capex towards the setting up of plant with capacity of 300 TPD at Taloja as backward integration for manufacturing key input i.e., Sulphuric Acid & Derivatives. The project is completed, and production began from February 2020 and Phase 2 included expansion of dye intermediates with capacity of 4500 MTPA for manufacturing of J-Acid and Tobias, which was expected to be commercial from November 2020, however the same was delayed due to pandemic COVID-19 situation and completed in FY22 and actual production commenced from May 2021. Phase 1 and Phase 2 project cost was overrun by ₹5.71 crore and ₹3.87 crore respectively and the same was funded through internal accruals only. The cost increase is owing to increase in cost of steel and other materials owing to COVID-19. Till date, the company has already incurred a capex of around ₹106.74 crore in the FY19 to FY24 period (up to June 30, 2023). Phase 3 includes manufacturing of pigments intermediates at a capacity of 4,500 MTPA, which was expected to be on streamline by FY23, and land of 3.4 acres has been bought for same in GIDC, Vapi. The company has now deferred the plan for manufacturing of new line of dye intermediate pigments and on the same land the company has planned to establish a plant for catering to pharma segment. The company will be focusing on pharma raw materials (API) mainly derivatives of vitamin B 12, and the total capex would be around ₹50 crore (9.92% of net worth as on March 31, 2023). The capex is expected to be completed around March 2025 with initial capacity of 1 tonne per month. As on date (June 30, 2023), the company has incurred around ₹13 crore and is likely to commence the production on pilot basis from October 2023 at the capacity of 300 kgs per month. The capex for the same would be funded through internal accruals and no further debt is planned to be taken by the company. Considering the size of the project as compared to its networth the project risk is considered to be low.

Liquidity: Adequate
BIL has adequate liquidity marked by adequate cash accruals generation against no long-term debt repayment obligations, moderate working capital utilization and with no plans to raise any additional external debt in the near to medium term horizon. In addition, as on June 30, 2023, unencumbered cash/bank balance stood at ₹45.56 crore (as on March 31, 2023 stood at ₹43.35 crores) while average utilization of fund-based Limit stood at around 37% for the last 12 months ended July 2023. Furthermore, BIL is currently implementing an expansion plan which will necessitate an investment of about ₹50 crore up to FY25 to be fully funded by internal accruals. As on March 31, 2023, the current ratio stood at 2.72x (PY-2.10) and quick ratio at 2.25x (1.60x)

Environment, social, and governance (ESG) risks:
The company adheres to the stringent pollution control standards as laid by the pollution control board. The company operates in dyes and pigments and generates polluted water during its production process that needs to be treated before their disposal. Hence, such units require compliance with stringent pollution control norms set by the regulatory authorities and any violation in compliance with these norms or any further strengthening of these norms would adversely impact the company's operations. The company has in-house water treatment plant and follows zero liquid discharge policy. Continuous adherence to the prevailing pollution control norms would remain crucial from the credit perspective. However, the company has established track record of complying with the required pollution control norms and no penalty was levied for flouting pollution norms in the past.

Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Commodity Chemicals

Incorporated in 1989, BIL is engaged in manufacturing of dyes & dyes-intermediaries and solar power generation and distribution. Under the chemical division, it has capacity to manufacture Vinyl Sulphone, H-acid and Gamma acid key dye intermediates at its plant located at Vapi and Tarapur. Under the Solar Power segment, BIL has 3.78 Mega Watt (MW) rooftop capacity, 5.26MWp solar power plant for captive consumption and 30 MW solar power plant located at Maharashtra and having 25-year PPA with Solar Energy Corporation of India.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	601.45	501.49	97.49
PBILDT	121.17	54.58	6.18
PAT	70.50	15.05	1.29
Overall gearing (times)	0.10	0.11	0.06
Interest coverage (times)	94.36	18.00	10.66

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 for this company: 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
Fund-based - LT/ ST-CC/PC/Bill discounting		-	-	-	90.00	CARE A; Negative / CARE A1
Fund-based - LT/ ST-Working capital limits		-	-	-	1.00	CARE A; Negative / CARE A1

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/ ST-CC/PC/Bill discounting	LT/ST*	90.00	CARE A; Negative / CARE A1	-	1)CARE A+; Stable / CARE A1+ (30-Aug-22) 2)CARE A+; Stable / CARE A1+ (12-Apr-22)	1)CARE A; Stable / CARE A1 (06-Sep-21)	1)CARE A; Stable / CARE A1 (02-Sep-20)
2	Fund-based - LT/ ST-Working capital limits	LT/ST*	1.00	CARE A; Negative / CARE A1	-	1)CARE A+; Stable / CARE A1+ (30-Aug-22) 2)CARE A+; Stable / CARE A1+ (12-Apr-22)	1)CARE A; Stable / CARE A1 (06-Sep-21)	1)CARE A; Stable / CARE A1 (02-Sep-20)

*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	Fund-based - LT/ ST-CC/PC/Bill discounting	Simple
2	Fund-based - LT/ ST-Working capital limits	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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