Bhagwati Products Limited

March 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	85.46 (Enhanced from 68.00)	CARE BBB; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	125.00 (Reduced from 145.00)	CARE BBB; Stable / CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Bhagwati Products Limited (BPL) takes into account experienced promoters and management team, revenue visibility from the new orders which is expected to result in substantial growth in the scale of operations along with the expected boost in margins along with incentives as per the Production Linked Incentive (PLI) Scheme, comfortable capital structure and adequate liquidity. The ratings also factor in change in business model of the company where in BPL is reporting only job work i.e. value addition as revenue instead of the final price of the whole product as revenue which has resulted in decline in scale of operations in FY23 (refers to the period from April 01, 2022 to March 31, 2023) and 9MFY24 (refers to the period from April 01, 2023 to December 31, 2024) and improvement in profitability margins in 9MFY24. The ratings continue to remain constrained by continued reliance on third-party suppliers for its majority of raw material requirement and fragmented and competitive nature of industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in operational performance thereby leading to increase in scale of operations and ROCE of more than 18%.

Negative factors

- Decline in scale of operations and PBILDT margin below 2.00% on a sustained basis.
- Elongation in operating cycle above 90 days.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the entity is expected to sustain its comfortable financial risk profile amidst healthy cash flow generation from operations and negligible term debt repayment obligations.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters and management team: The promoters of BPL, Mr. Rajesh Agarwal (31.08% stake in BPL), Mr. Rahul Sharma, Mr. Sumeet Kumar and Mr. Vikas Jain, have background in engineering, IT and telecommunications industry having demonstrated entrepreneurial experience in the past. Mr. Rohan Agarwal, son of Mr. Rajesh Agarwal has been appointed as the Chairman of BPL. The management of BPL is supported by a team of experienced & qualified professionals who are involved in day to day operations of the company.

Diversified customer base: Over the past two years, company has been able to diversify its product as well as customer base which was earlier concentrated towards mobile phones being supplied to Micromax Industries Limited (MIL). Though, revenue remained concentrated to 5 customers only, contributing to ~85% of the total sales in FY23 (PY: ~90%).

Comfortable Financial risk profile: The financial risk profile of the company is characterized by low overall gearing and comfortable debt coverage indicators. As on March 31, 2023, the overall gearing of the company stood at 0.05x (PY: 0.27x). Further, reliance on long term loan is low despite investing into backward integration as per the PLI Scheme. Interest Coverage ratio and Total debt to Gross Cash Accruals also stood comfortable at 11.34x and 0.69x as on March 31, 2023 (PY: 15.36x and 3.21x).

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

Decline in scale of operations albeit improvement in profitability margins in 9MFY24: The total operating income of the company declined by ~29% to Rs.954.84 crore in FY23 (PY: Rs.1340.68 crore) owing to BPL booking commission income from contract manufacturing as against regular sales and purchases. The company has shifted its focus on other segments like LED TVs, Tablets, Laptop and Air conditioners as mobile phones were facing stiff competition from Chinese players and other mobile brands like Oppo, Vivo, Xiaomi etc. The PBILDT and PAT margin of the company continued to remain low at 2.86% (PY: 2.53%) and 0.19% (PY: 0.80%) respectively in FY23. During 9MFY24, the total operating income of the company declined by ~35% to Rs.489.70 crore (PY: Rs.750.70 crore) owing to the aforementioned reason. However, the PBILDT and PAT margin of the company increased substantially to 4.90% (PY: 2.33%) and 2.04% (PY: 0.28%) respectively in 9MFY24. The company has received orders from Acer and Hisense worth ~Rs.900.00 crore (for supply of tablets) and ~Rs.500.00 crore (for supply of LED TVs) respectively which is expected to substantially grow the scale of operations of the company, however, timely execution of the same would remain a key monitorable. Further, BPL is the first domestic company to bag the disbursement under the PLI Scheme for IT Hardware, however, going forward, timely receipt of the same as scale grows remain key monitorable from profitability and healthy cash flow perspective.

Key weaknesses

Reliance on third-party suppliers for majority of products / services: BPL procures all of its raw material including SKDs, LED Panels, spares, parts etc. from the third-party suppliers which exposes it to timely product availability risk. Majority of the raw material is procured by the suppliers based out of China, Hong Kong and Taiwan. BPL had entered into agreements with Original Equipment Manufacturers (OEMs) for its raw material requirement. From Q4FY20 onwards, the company entered into contract manufacturing for some of its customers wherein it procures raw materials directly from the suppliers nominated by its customers. Company is able to secure its margins as after fixing its components pricing, BPL gives quotes to its customers thereby insulating itself from the rise in raw material prices.

Fragmented and competitive nature of industry: India is one of the most prominent markets for mobile phones. The Indian mobile handset industry is marked by high level of competition with the market being highly price sensitive and value driven. Intense competition and fragmented nature of industry with both domestic and foreign players competing has resulted in stiff price competition. In order to capture the market share, the mobile companies are coming up with several initiatives such as bundled offers, discounts and aggressive pricing. However, these mechanisms are severely affecting the profitability margins of the manufacturers as well as the traders. Further, there has been consistent under-achievement in expected profitability owing to intense competition and hence BPL’s ramp up to meet the requirement of PLI to claim subsidy shall remain crucial.

Liquidity: **Adequate:** BPL has adequate liquidity position supported by healthy cash accruals of Rs 35.87 crore against which it has negligible long-term debt repayment obligation of Rs 2.80 crore in FY24. The company has fund-based limits which are sparingly utilised with average month end utilization of ~39% during the trailing 12 months ended December 31, 2023. The company had free cash and bank balance of Rs.31.33 crore as on December 31, 2023. Going forward, BPL may incur capex of ~Rs.105.00 crore in FY25 pertaining to setting up of a mobile assembling unit. However, the same is not a committed capex and will be incurred only if BPL receives confirmed orders with visibility of 3 or more years. The same will be funded through debt (~85%) and remaining from internal accruals.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Bhagwati Products Limited (BPL) was incorporated in October 2002 as ‘Bhagwati Cookies & Wafers Limited’ for manufacturing of bakery products. Later in March 2003, the name of the company was changed to the present one. The company is collectively owned by Micromax Informatics Limited (MMIL) and its promoters. BPL is engaged in manufacturing and assembly of telecom devices and electronic items including mobile phones, TVs, Tablets and its accessories. The company has also diversified into various other products viz. Lithium-Ion Battery, PCBA, LED TV Panel, AC etc. The entity has manufacturing facilities located at Rudrapur (Uttarakhand), Hyderabad (Telangana) and Bhiwadi (Rajasthan) with total installed capacity for Mobiles at 2.40 crore PA, LED TV/Tablets at 1.44 crore PA, AC at 6 Lakh PA and LI Batteries at 1 Lakh PA.

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Consumer Electronics

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	1,340.68	954.84	489.70
PBILDT	33.95	27.33	24.02
PAT	10.76	1.78	9.98
Overall gearing (times)	0.27	0.05	0.24
Interest coverage (times)	15.36	11.34	32.46

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
Fund-based - LT-Cash Credit		-	-	-	60.00	CARE BBB; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	125.00	CARE BBB; Stable / CARE A3+
Term Loan-Long Term		-	-	Aug 26	25.46	CARE BBB; Stable

CareEdge RATINGS

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/Non-fund-based-LT/ST	LT/ST	125.00	CARE BBB; Stable / CARE A3+	1)CARE BBB; Stable / CARE A3+ (05-Apr-23)	-	1)CARE BBB; Stable / CARE A3+ (21-Mar-22) 2)CARE BBB-; Positive / CARE A3 (05-Apr-21)	1)CARE BBB-; Stable / CARE A3 (07-May-20)
2	Term Loan-Long Term	LT	25.46	CARE BBB; Stable	1)CARE BBB; Stable (05-Apr-23)	-	1)CARE BBB; Stable (21-Mar-22) 2)CARE BBB-; Positive (05-Apr-21)	1)CARE BBB-; Stable (07-May-20)
3	Fund-based - LT-Cash Credit	LT	60.00	CARE BBB; Stable	1)CARE BBB; Stable (05-Apr-23)	-	1)CARE BBB; Stable (21-Mar-22) 2)CARE BBB-; Positive (05-Apr-21)	1)CARE BBB-; Stable (07-May-20)

LT: Long term; ST: Short term; LT/ST: 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-Cash Credit	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple
3	Term Loan-Long Term	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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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