

## Bengal & Assam Company Limited (Revised)

June 27, 2024

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

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Reaffirmation of issuer rating assigned to Bengal & Assam Company Limited (BACL) continues to consider the financial flexibility emanating from significant market valuation of its quoted investments in JK group companies (around ~₹12,769 crore as on June 10, 2024, up from ₹8,979 crore noted as on June 12, 2023) and its strategic holdings in unquoted group companies. Collectively, they provide adequate coverage in terms of market value of holding to outstanding debt of around 128 times as on June 10, 2024. The rating continues to draw comfort from the company's status as the investment holding company for the reputed JK group, having diversified businesses, strong credit profile and the satisfactory track record of dividend income flowing from group companies. The rating further continues to derive strength from experienced promoters and management team of the group, strong investment profile of BACL and its healthy asset quality. The rating also takes cognizance of the limited incremental financial support to key investee companies envisaged in the near-to-medium term and the management's guidance to limit consolidated external borrowings within a reasonable range in the medium term.

However, the rating is constrained by BACL's limited revenue stream, its dependence on dividend income from group companies and exposure towards market related risks.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Enhancement in the financial flexibility of BACL emanating from the significant market valuation of the investments in JK 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.

#### 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 analytical approach followed by CARE Ratings Limited (CARE Ratings) takes into account BACL's financial flexibility emanating from significant market valuation from holding of JK group companies and its strategic holdings in unlisted group companies with adequate coverage in terms of market value of holding to outstanding debt.

### Outlook: Stable

The Stable outlook reflects CARE Ratings' 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 maintaining healthy financial risk profile and financial flexibility.

### Detailed description of key rating drivers:

#### Key strengths

##### Holding company of established industrial house with experienced promoters

BACL majorly holds investment in almost all group companies of the JK group, which was founded 1918. The group is actively working in core sectors of cement, paper, automotive tyre, sugar, and agri-products, among others. The group established a reputed image and brand name over the years through its group companies. As on March 31, 2024, BACL held approximately 97% of its total assets in the form of investments in equity share and preference share capital of its subsidiaries and other group companies (listed and unlisted). The company has notable stake in prominent group companies, including JK Lakshmi Cement Limited (JKLC rated 'CARE AA; Stable/CARE A1+'), JK Tyre & Industries Limited (JKTIL rated 'CARE AA-; Stable/CARE A1+'), JK Fenner (India) Limited, JK Paper Ltd, JK Agri Genetics Limited (JKAL rated 'CARE A-; Negative/CARE A2'), Umang Dairies Ltd (UDL rated 'CARE BBB+; Stable'), and Divyashree Company Limited (together forming approximately 81% of the total assets as on March 31, 2024), in the form of investment in equity; reflecting the company's strong investment portfolio. Engaged in cement

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

business since 1982, JKLC 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 1975 and is among the leading tyre manufacturers in India. JK Paper Limited (JKPL), incorporated in 1960, is also one of the prominent players in the Indian paper and paper boards industry, while JK Fenner (India) Limited has an established position in power solutions and sealing industry.

### **Large market value of holdings in 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, and JK Agri Genetics Limited among others, which provide adequate financial flexibility as these entities have strong credit risk profile. As against the book value of investment of these investments of ₹869.91 crore (76% of the total investment as on March 31, 2024), the market value of such holding stood at around ₹12,769 crore as on June 10, 2024. The overall debt (which is availed only from the group companies) stood at ₹99.73 crore as on March 31, 2024, indicating adequate coverage in terms of market value of holding to outstanding debt of 128x and consequent ability to raise further debt. 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 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 ₹1088.6 crore (PY: ₹999.7 crore) as on March 31, 2024. Its overall gearing stood comfortable at 0.09x as on March 31, 2024, against 0.17x as on March 31, 2023, and is expected to improve further in FY25.

### **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. In FY24 (refers to the period April 01 to March 31), the company recorded dividend income of ₹143.00 crore (90% of the total operating income). BACL derived interest income of ₹6.33 crore in FY24 against ₹6.20 crore in FY23. The company also derived revenue from the rental income from group companies.

### **Key weaknesses**

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

BACL held approximately 90% of the total assets (₹1,207.71 crore) as on March 31, 2024, in the form of investments in its group companies. With dividend being major source of income for BACL, its cash flows and future prospects are directly linked to performance of its group companies. Given the cyclical nature of industries such as cement, tyre, and paper, among others, in which the group is operating, decline in performance of those industries might affect BACL's revenue stream and its debt repayment capacity. However, the presence of group companies across industries also diversifies BACL's investment portfolio to some extent and reduces its dependence on a particular company. As the holding company for the JK group companies, BACL is committed towards meeting incremental investment requirements arising in group companies for expansion and growth plans of such companies. Moreover, with the group companies belonging to cyclical industries, support extended may adversely affect the credit and financial risk profile of BACL. However, as guided by the management, BACL does not envisage major investment or support extended to the group companies in the near term.

### **Exposure to market-related risks**

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

### **Liquidity: Strong**

The company has mutual fund balances of ₹62.05 crore (5% of the total assets) (PY: ₹31.02 crore) as on March 31, 2024. None of the shares of major JK group companies are pledged as on March 31, 2024, providing liquidity buffer. Per BACL's asset liability management (ALM) statement dated March 31, 2024, the company had no negative mismatches in of buckets. In addition to this, the company had no external debt in its book and has also prepaid ₹70 crore debt from group companies, which stood at ₹23.12 crore as on March 31, 2024.

### **Environment, social, and governance (ESG) risks:**

**Environmental:** BACL does not have significant direct environmental impact.

**Social:** BACL engages in social initiatives as it regularly organises employee engagement programs, with outcomes reviewed by management and the Board of Directors. The company has been undertaking and participating in the socially important projects in health, education, adult literacy, livelihood enhancement, environment conservation, among others.

**Governance:** Governances at BACL is underpinned by a robust framework designed to ensure efficient operations and protect stakeholders' interests. As of March 31, 2024, the Board of Directors comprises nine members executive directors, of which, five are independent directors. Board also includes two women directors. This balanced structure supports the company's commitment to high standards of corporate governance.

### Applicable criteria

[Policy on Default Recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Investment Holding Companies](#)

[Issuer Rating](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios Financial Sector](#)

### About the company and industry

#### Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Investment 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 FY24, the Board of Directors of BACL approved a scheme of arrangement between Bengal & Assam Company Ltd (BACL), Umang Dairies Ltd (UDL) and Panchmahal Properties Ltd (PPL) wherein UDL shall be demerged into PPL (wholly owned subsidiary of BACL) and residual UDL to be amalgamated into its parent company BACL. BACL currently holds is ~55.3% shareholding in UDL and ~100% in PPL. The scheme was approved by board of directors of BCAL on June 28, 2023, and all necessary approvals from stock exchanges and SEBI have been obtained in February 2024. The application is now sent to NCLT for its approvals, and within 3-4 months, the process will be completed.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Abridged)
Total operating income	173.26	159.58
PAT	121.85	115.75
Interest coverage (times)	9.91	14.06
Total Assets	1,186.97	1,207.71
Net NPA (%)	0.00	0.00
ROTA (%)	10.33	9.67

A: Audited UA: Unaudited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 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 2024-2025	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
1	Issuer Rating-Issuer Ratings	LT	0.00	CARE AA-; Stable	-	1)CARE AA-; Stable (27-Jun-23)	1)CARE AA-; Stable (26-Dec-22) 2)CARE AA- (Is); Stable (21-Jun-22)	1)CARE AA- (Is); Stable (21-Jun-21)

LT: Long term

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

#### Annexure-4: Complexity level of instruments rated

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

#### Annexure-5: Lender details

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

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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### About us:

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