Bhageria Industries Limited

September 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	91.00	CARE A; Stable / CARE A1	Reaffirmed; Outlook revised from Negative

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating reaffirmation and revision in outlook on long-term rating to stable from negative factors in improvement in profitability of Bhageria Industries Limited's (BIL) chemicals segment following relative stability in prices of key chemicals in recent quarters and improving demand for dyes and dye intermediates from end-user industries including textiles. In Q1FY25, revenue from BIL's chemicals segment grew by ~6% y-o-y to ₹94.09 crore with profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins recovering to 3.15% against -3.18% in Q1FY24 and 2.87% in FY24. Its solar power and other business segments continue to record stable performance. CARE Ratings Limited (CARE Ratings) expects BIL's profitability to improve in FY25, as compared to FY24, driven by improvement in chemicals business, translating into healthy cash generation from operations which, in the absence of sizeable organic/inorganic expansion plans, are likely to support BIL's credit profile over the near-to-medium term. While reaffirming the rating, CARE Ratings notes the company's plans to expand in pharmaceutical API segment with production of B-12 APIs, where it has spent ~₹17 crore through internal accruals and no additional capex planned in near term. Further, it has achieved WHO-GMP certification, while it waits for other necessary approvals.

The rating continues to factor in the company's long track record and extensive experience of its promoters. BIL's capital structure remains comfortable marked by overall gearing at 0.10x and total outside liability to total net worth (TOL/TNW) at 0.26x with tangible net worth of ₹518.56 crore as on March 31, 2024, and coverage indicators marked by interest coverage at 24.33x in FY24 and expectations of stable demand for dyes and dye intermediates in the near-to-medium term. The rating also considers healthy diversification in BIL's revenue and profits from its solar power segment. Additionally, the rating also factors in the strong liquidity with healthy cash accruals against moderate repayment obligation in medium term and sizeable free cash and bank balances of ₹45.15 crore as on March 31, 2024.

However, the rating remains constrained by subdued operational performance in FY24, where BIL's total operating income (TOI) marginally declined on y-o-y basis to ₹495.78 crore as compared to ₹501.49 crore and PBILDT margin of 9.10% as compared to 10.88% considering decline in realisation per kilogram. Additionally, dyes and dye intermediate segment witnessed headwinds in FY24 owing to weak demand from key consuming sectors, mainly the textile industry. Further, the rating is constrained by the vulnerability of the company's profitability to adverse fluctuation in raw material costs, forex fluctuations and intense competition in the industry. The company's performance, also, remains susceptible to the risk associated with adaptation of stringent environmental control norms of government.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- Significantly increasing scale of operation and improving PBILDT margin from chemical segment on a sustained basis.
- Improving return on capital employed (ROCE) above 20% on a sustained basis.

Negative Factors

- Significantly declining scale of operation and PBILDT margin below 10% leading to declining cash accruals.
- Larger than anticipated debt-funded capex or leveraged acquisition, leading to sustained and major deteriorating leverage to above 0.75x or debt coverage indicators or significantly stretching working capital cycle.

Analytical approach: Consolidated

Consolidated financials have been considered due to presence of common management, brand name, and operational linkages with subsidiary. List of entities considered for consolidation mentioned in Annexure- 6.

Outlook: Stable

Stable outlook reflects that the rated entity will continue to benefit from its established track record and expected improvement in contribution levels of chemical business translating into healthy cash generation supporting the credit profile.

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

Detailed description of key rating drivers:

Key strengths

Favorable capital structure and comfortable debt coverage indicators

BIL's financial risk profile stood comfortable marked by healthy net worth, low gearing and strong debt protection metrics. Its net worth stood at ₹518.56 crore as on March 31, 2024 (PY: 504.59 crore). Capital structure stood favourable marked by overall gearing at 0.10x (PY: 0.12x) and TOL/TNW at 0.26x (PY: 0.20x) as on March 31, 2024 with improvement on a y-o-y basis considering decline in total debt to ₹50.75 crore as on March 31, 2024, from ₹52.20 crore as on March 31, 2023, and improvement in net worth owing to accretion of profits. In FY24, debt coverage indicators stood comfortable marked by total debt to gross cash accruals (TD/GCA) at 1.03x (PY: 1.25x) and interest coverage ratio improving y-o-y to 24.33x (PY: 15.46x) considering lower interest cost due to lower working capital utilisation. CARE Ratings expects BIL to maintain a comfortable credit profile in the near-to-medium term in absence of sizeable organic/inorganic expansion plans.

Extensive experience of promoters and established relations with reputed clientele

BIL, incorporated in 1989, is promoted by Suresh Bhageria and Vinod Bhageria, who have over three decades of experience in dyes and dyes intermediates industry. Clientele includes some of the reputed domestic and global companies, Everlight Chemical Industrial Corporation, Huntsman International (India) Private Limited among others. As a result of long-standing experience and consistency in supply, BIL has been able to garner repeat orders from its existing clientele and has also added some large export customers in the past. BIL has moderate customer concentration, where its top ten customer contribute ~55-60% of its total revenue from chemical division. The company will benefit from the extensive experience of promoters and its long-standing relationship with clientele in future.

Consistent revenue and profit contribution from its solar plant

BIL entered in solar power generation in 2015 by commissioning ~3.78 MW solar power capacity, most of which is at Chennai and has power purchase agreement (PPA) for 25 years at ₹6.61 per MW. BIL also commissioned 30MW(AC) solar power plant in July 2017 at Ahmednagar, Maharashtra having entered in 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 stabilisation of its solar power plants, there has been healthy revenue (~₹27-30 crore) and profit contribution from solar division.

Well-established backward integrated manufacturing operations

BIL's operations are backward integrated with in-house manufacturing of its key dye intermediates. In the dye intermediates 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 introduction of new product to portfolio, product mix or revenue diversity of the company has improved.

Key weaknesses

Moderate revenues and profitability

BIL's TOI registered a marginal decline of 1.13% on y-o-y basis to ₹495.78 crore as compared to ₹501.49 crore in FY23 marked by ~15% y-o-y decline in revenue from chemicals segment while revenue from solar power segment remained stable in the range of ₹28-29 crore and the other business segment contributed ~₹68 crores. Decline in revenue from chemicals segment was primarily due to lower off-take from customers and lower realisation due to industry-wide headwinds. BIL's PBILDT margin also marginally declined on y-o-y basis to 9.10% in FY24 as compared to 10.88% in FY23. This decline was primarily due to lower sales realisation and an increase in the cost of production owing to fluctuation in prices of raw materials. However, profit after taxation (PAT) margin has marginally improved on y-o-y to 3.74% in FY24 as compared to 2.93% in FY23 considering lower interest cost owing to lower working capital utilisation and depreciation expense. In Q1FY25, TOI stood at ₹112.52 crore with PBILDT margin of 10.29% against Q1FY24, TOI stood at ₹97.49 crore with PBILDT margin of 6.34%. Furthermore, achieving the envisaged operating margins remains a key rating monitorable for the company.

Operations of the company remain 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 control, protection of environment, greenhouse gas emissions and 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 promulgation and enforcement of specific standards which impose requirements. Changes in environmental regulations could inhibit or interrupt 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. 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.

Exposure of profitability to raw material price volatility and foreign exchange rates
Principle raw materials required are sulphur, tobias acid (derivative of naphthalene), beta naphthol, caustic soda flakes, naphthalene (crude derivative), and aniline which form ~70% of raw material cost. Most raw materials are derivatives of crude oil, and their prices vary in accordance with variation in international market price of crude oil. Hence, BIL's profitability is susceptible to volatility in prices of raw materials. The company derives ~16% from exports which exposes its profitability to fluctuations in foreign exchange rate. The company is net exporter; hence it mitigates risk to some extent through natural hedge and for the balance part it further hedges based on market situation.

Working capital intensive operations
BIL's operations are working capital intensive due to sizeable receivables and inventory holding requirements. Working capital cycle stood at moderate levels of 99 days as on March 31, 2024 (PY: 97 days). In FY24, collection days stood at 104 days (PY: 89 days) and inventory days stood at 36 days (PY: 45 days), while creditor days stood at 40 days (PY: 37 days).
The company has adequate cushion in its working capital borrowings to support elongation in the working capital cycle.

Liquidity: Strong

BIL has strong liquidity marked by healthy cash accruals generation in the range of ₹52-54 crore in projected years against moderate long-term repayment obligations of ₹9crore, low average working capital utilisation and no plans to raise additional external debt in the near-to-medium term horizon. In addition, as on March 31, 2024, unencumbered cash/bank balance including fixed deposits (excluding FD marked as lien) stood at ₹45.15 crore while average working capital utilisation stood at ~9.45% for the twelve months ended June 24. With a gearing of 0.10x as on March 31, 2024, BIL has sufficient gearing headroom, to raise additional debt for its capex, if needed. In FY24, net cash flow from operations stood at ₹21.69 crore (net CFO remained positive in last five years). As on March 31, 2024, current ratio stood at 2.49x and quick ratio stood at 2.12x.

Environment, social, and governance (ESG) risks

Parameters	Risk factors
Environmental	The company adheres to stringent pollution control standards as laid by the pollution control board. The company operates in dyes and pigments and generates polluted water in its production process that needs to be treated before their disposal. The company has in-house water treatment plant and follows zero liquid discharge policy. The company has established track record of complying with required pollution control norms and no penalty was levied for flouting pollution norms in the past
Social	The company undertakes regular safety trainings in plant premises to achieve the goal of zero incident and developed policies to benefit employees and workers, which include employment rights, safety practices, suggestion scheme, and canteen facilities, among others.
Governance	The company has required committees and policies, which include corporate social responsibility, a code of conduct, and a whistle blower mechanism, among others. The company's board of directors comprises seven directors, which include four independent directors, one executive director and chairman, one managing director and one joint managing director.

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

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Chemicals and petrochemicals	Commodity chemicals

Incorporated in 1989, BIL is engaged in manufacturing dyes and 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 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 at Maharashtra and having 25-year PPA with Solar Energy Corporation of India

Brief Financials (₹ crore)-Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	501.49	495.78	112.52
PBILDT	54.48	45.10	11.58
PAT	14.71	18.53	5.81
Overall gearing (times)	0.12	0.10	NA
Interest coverage (times)	15.46	24.33	15.24

A: Audited UA: Unaudited NA: Not available; 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
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	90.00	CARE A; Stable / CARE A1
Fund-based - LT/ ST-Working Capital Limits		-	-	-	1.00	CARE A; Stable / CARE A1

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	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	90.00	CARE A; Stable / CARE A1	-	1)CARE A; Negative / CARE A1 (15-Sep-23)	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)
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST	1.00	CARE A; Stable / CARE A1	-	1)CARE A; Negative / CARE A1 (15-Sep-23)	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)

LT: Long term; ST: Short term; LT/ST: Long term/Short 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	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
2	Fund-based - LT/ ST-Working Capital Limits	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Bhageria & Jajodia Pharmaceuticals Private Limited	Proportionate	Subsidiary
2	Bhageria Industries Holding Company WLL	Full	Subsidiary

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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