

Bhatia Colour Company

February 21, 2022

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	19.00 (Enhanced from 15.00)	CARE B; Stable (Single B; Outlook: Stable)	Revised from CARE B+ (Single B Plus) and removed from Credit watch with Developing Implications; Stable outlook assigned
Short Term Bank Facilities	-	-	Withdrawn [^]
Total Bank Facilities	19.00 (Rs. Nineteen Crore Only)		

Details of facilities in Annexure -1; [^]Reclassification of limit and reduction in overall exposure

Detailed Rationale & Key Rating Drivers

The rating was placed on credit watch with developing implications due to the likely impact on the financial profile of the firm, post demise of sole proprietor Mr. Brijlal Bhatia and freezing of cash credit account by its lender. The business has been transferred in the name of Mr. Bharat Bhatia (son of late Mr. Brijlal Bhatia) and cash credit facility had been opened in name of the firm with overall reduction in the bank limits. There was deterioration in financial profile marked by decline in TOI in FY21 (Provisional, FY refers to period from April 01 to March 31), elongation of operating cycle and continued weak debt coverage indicators with continued reliance on funds infused by proprietor or group for debt servicing. Consequently, the long term rating assigned to the bank facilities of Bhatia Colour Company (BCC) has been revised and removed from Credit watch with developing implication.

The rating continues to remain constrained by its thin profitability owing to its trading nature of operations, stretched liquidity, its constitution as a proprietorship, foreign exchange fluctuation risk, volatility in commodity prices and presence into highly fragmented & competitive trading industry.

The ratings, however, continue to derive strength from the established presence of Bhatia group in the textile and chemicals industry and need based support extended in the form of unsecured loans.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustaining operating profitability (PBILDT margin) beyond 7% on a sustained basis while significantly improving its total operating income (TOI) and diversification in portfolio of traded goods
- Shortening of working capital cycle with reduction in gross current assets to less than 120 days
- Improvement in overall gearing to below 1.00x on a long term basis with reduced reliance on external borrowings to fund working capital requirements

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any sizeable decline in operating profitability (PBILDT margin below 2%) or any major write-off of receivables or meaningful inventory losses
- Any meaningful support extended to any group entities or withdrawal of financial support by the group entities / proprietor from present levels

Detailed description of the key rating drivers

Key Rating Weaknesses

Significant decline in scale of operations during FY21 (Provisional) and continued thin operating profitability owing to trading nature of operations

As per the provisional results of FY21, BCC had reported significant decline in its TOI from Rs.99.70 crore in FY20 to Rs.40.48 crore in FY21 (59% y-o-y) on the back of muted trade sales of dyes and chemicals with top customers amidst disruption in business (first Covid 19 induced disruptions and then death of its earlier proprietor) and freezing of working capital limits. BCC's profitability continued to remain thin marked by its PAT margin of 0.42% in FY21 (Provisional) [PY:0.95%] due to its low value-added trading nature of business. However, in 9MFY22 (provisional), BCC reported TOI of Rs.66.56 crore.

Deteriorated capital structure and weak debt coverage indicators

BCC's capital structure marked by its overall gearing deteriorated significantly and continued to remain leveraged at 9.40 times as on March 31, 2021 (Provisional). Also, unsecured loans (USL) which was treated as quasi equity from Rs.15.22 crore as on March 31, 2020 are now considered as part of debt as on March 31, 2021.

BCC's debt coverage indicators deteriorated over the previous year on account of dip in TOI, and subsequently, PAT and GCA and hence, remained weak in FY21 (Provisional).

¹Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE publications

Constitution as a proprietorship concern

BCC, being a proprietorship concern, is exposed to inherent risk of proprietors' capital being withdrawn at time of personal contingency along with risk of unlimited liability of the owner. Further, proprietorship concern has restricted access to external borrowings, as the creditworthiness of proprietor remains the key factor affecting the credit decision for lenders.

Foreign exchange fluctuation risk, volatility in commodity prices and presence into highly fragmented & competitive trading industry

BCC is primarily engaged into trading of chemicals, dyes and polyester filament yarn. These are commodity grade products, prices of which are volatile in nature. Further, owing to its trading nature of operations, BCC has limited ability to pass any adverse movements in prices to its customers which affects its profitability. Further, BCC does not have any active hedging policy for its import obligations, which exposes its profitability to adverse movement in foreign exchange rates.

The trading industry is highly fragmented and characterized by the presence of a large number of organized and unorganized players, which leads to high competition in the industry. The entry barriers for competitors in this industry remain low thereby translating into stiff competition for the firm.

Key Rating Strength

Established presence in market and need based support extended by Bhatia group

BCC is a part of the Surat based Bhatia Group, which has established operations of over four decades through various entities engaged in similar line of businesses i.e. textile and chemical industry, including Polychem Exports (PE: rated CARE B; Stable/CARE A4) and Polychem Industries (PI; rated CARE B; Stable / CARE A4), Srinathji Enterprise. Mr. Brijlal Chanduram Bhatia, the former proprietor of BCC, had an experience of over four decades. Post demise of the proprietor (Mr. Brijlal Bhatia), the business is transferred to his son Mr. Bharat Bhatia which has experience of over two decades.

The group has demonstrated its resourcefulness through infusion of unsecured loans to support business operations. Unsecured loans from promoters & relatives stood at Rs.15.90 crore as on March 31, 2021.

Liquidity: Stretched

BCC's liquidity position remained stretched marked by high utilization of its fund based working capital limits coupled with elongated operating cycle and low cash accruals against high debt repayment with continued reliance of infusion of funds by promoters to support debt repayments.

During FY21 (Provisional), BCC's operating cycle elongated to 298 days [PY:141 days] on account of elongation of collection period and inventory period to 738 days and 271 days respectively [PY: 431 days and 78 days respectively] primarily due to averaging impact considering substantially lower scale of operations. Working capital requirement are met primarily by stretching creditors which remained high Rs.56.66 crore as on March 31, 2021 (Provisional) coupled with high average utilization of its working capital borrowings which remained at around 99% during last seven months ended in December, 2021. BCC's cash accruals remained modest at Rs.0.17 crore in FY21 (Provisional) as against scheduled principle repayment of Rs.3.28 crore in FY22 which led to its higher reliance of infusion of funds by promoters to support debt repayments. Unencumbered cash and bank balance remained at Rs.0.64 crore as on March 31, 2021 (Provisional) while cash flow from operations (CFO) increased to Rs.17.16 crore in FY21 (Provisional) as the firm's reduced scale of operations freed-up funds from working capital and utilized for timely service its scheduled debt obligations.

Analytical Approach: Standalone

Applicable Criteria:

[CARE's Policy on Default Recognition](#)

[Policy on Withdrawal of ratings](#)

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[Rating Methodology - Wholesale Trading](#)

[Financial Ratios - Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Firm

Bhatia Colour Company (BCC) is a proprietorship firm set up in 1998 by late Mr. Brijlal Bhatia and is a part of the Surat city-based Bhatia group. Post demise of Mr. Brijlal Bhatia, the business is transferred to his son Mr. Bharat Bhatia. BCC is mainly engaged in the trading of chemicals, textile dyes, polyester filament yarn and staple fiber.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (UA)	9MFY22 (UA)
Total operating income	99.70	40.48	66.56
PBILDT	7.25	5.27	NA
PAT	0.94	0.17	NA
Overall gearing (times)	1.93	9.40	NA
Interest coverage (times)	1.15	1.03	NA

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	19.00	CARE B; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT*	19.00	CARE B; Stable	-	1)CARE B+ (CWD) (30-Nov-20) 2)CARE BB (CWD) (13-Oct-20)	1)CARE BB; Negative (08-Nov-19)	1)CARE BB; Stable (04-Oct-18)
2	Non-fund-based - ST-Letter of credit	ST*	-	-	-	1)CARE A4 (CWD) (30-Nov-20) 2)CARE A4 (CWD) (13-Oct-20)	1)CARE A4 (08-Nov-19)	1)CARE A4 (04-Oct-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated facilities: None

Annexure-4: Complexity level of various instruments rated for this Firm

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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