

**Bengal and Assam Company Limited** (Revised)

June 21, 2021

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Issuer Rating*	-	<b>CARE AA-(Is); Stable</b> <b>[Double A Minus (Issuer Rating); Outlook: Stable]</b>	<b>Assigned</b>

\*The issuer rating is subject to the company not exceeding the level of total debt beyond Rs. 500 cr (or overall gearing of 0.57x as on March 31, 2022).

**Detailed Rationale & Key Rating Drivers**

The rating assigned to Bengal and Assam Company Limited (BACL) takes into account its financial flexibility emanating from the significant market valuation from the holding of JK group companies (around Rs. 6500 crore as on June 10, 2021) and its strategic holdings in non-listed group companies with adequate coverage in terms of market value of holding to outstanding debt of 16.28 times as on June 10, 2021. The rating also factors in the company's status as the investment holding company for the JK group companies & the exhibited track record of dividend income from the group companies. The rating continued to derive strength from experienced promoters & management team, strong investment profile of BACL and healthy asset quality. The rating is, however, constrained by BACL's dependence on dividend income and limited revenue stream. The future prospects of BACL are highly dependent on the performance of the group companies in which it has significant investments.

BACL did not seek any moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020.

**Rating Sensitivities****Positive Sensitivities**

- Enhancement in the financial flexibility of BACL emanating from the significant market valuation from the holding of the shares in its group companies along with the improvement in the credit profile of the underlying entities.
- Limited incremental investment requirement in the group entities from BACL with no significant increase in the borrowings of BACL on a sustained basis going forward.

**Negative Sensitivities**

- Any substantial reduction in the market value of the investments held by BACL in the group companies adversely impacting the market value to debt cover against what is envisaged.
- Substantial increase in total debt availed and further support given to the group companies against what is envisaged.
- Any substantial dilution of the promoter stake in BACL which may adversely impact its credit profile or any change in the status of being a key holding company for the group.

**Detailed description of the key rating drivers****Key Rating Strengths****Holding company of established industrial house and strong investment profile**

BACL majorly holds investment in almost all the group companies of the JK group which was founded in year 1918. The group is actively working in the core sectors of cement, paper, automotive tyre, sugar, agri-products, etc. The group has established a reputed image and brand name over the years through its various group companies.

BACL held approximately 94% of its total assets in the form of investments in equity share and preference share capital, subsidiaries and group companies, listed companies and unlisted companies as on March 31, 2021. The company has notable stake in prominent group companies like JK Lakshmi Cement Ltd. (JKLC rated 'CARE AA-; Stable' and 'CARE A1+'), JK Tyre & Industries Ltd. (JKTIL rated 'CARE A; Stable' and 'CARE A1'), JK Fenner (India) Ltd., JK Paper Ltd, JK Agri Genetics Ltd. (JKAL rated 'CARE BBB+; Stable' and 'CARE A3+') and Divyashree Company Ltd. (together forming approx. 79% of total

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

assets) in form of Investment in equity; thus reflecting the strong investment portfolio of the company. JKLC, engaged in cement business since year 1982 has strong presence in cement industry, especially in northern and western markets of India under brand name of 'JK Lakshmi cement'. JKTIL has been engaged in tyre industry since year 1975 and is among the leading tyre manufacturers in India. JK Paper Ltd (JKPL), incorporated in 1960, is also one of the prominent players in the Indian paper and paper boards industry while JK Fenner (India) Ltd. has an established position in the polymer industry.

#### **Large market value of holdings in various JK group companies & adequate liquidity**

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, JK Agri Genetics Limited etc., which provides adequate financial flexibility. As against the book value of investment of these investments of Rs. 867.03 cr (84% of total investment as on March 31, 2021), the market value of such holding stood at around Rs. 6500 cr as on June 10, 2021. As against this, the overall debt (which is availed only from the group companies) stood at Rs. 399.83 cr as on March 31, 2021, thus indicating adequate coverage in terms of market value of holding to outstanding debt of 16.28 times as on June 10, 2021 and consequent ability to raise further debt if required. In addition to this, the management has also indicated that the total debt of the company is not likely to exceed Rs. 500 cr over the period of next 2 years leading to maximum gearing level of 0.57x as on March 31, 2022. 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.

The company has cash and bank balances of Rs. 3.63 cr (PY: Rs. 4.74 cr) and mutual fund balances of Rs. 18.08 cr (1% of total assets) (PY: Rs. 32.90 cr) as on March 31, 2021. None of the shares of major JK group companies are pledged as on March 31, 2021, thus providing liquidity buffer to the company. Also, as per BACL's Asset Liability Management (ALM) statement dated March 31, 2021, the company had no negative cumulative mismatches in any of the buckets. In addition to this, the company also did not avail any moratorium for the servicing of its bank facilities and these were completely paid off during FY21.

#### **Financial flexibility and healthy asset quality**

The company has robust capital structure with strong net worth base of Rs. 835.61 crore (PY: Rs. 801.84 crore) as on March 31, 2021. Its overall gearing stood comfortable at 0.48x as on March 31, 2021, vis-à-vis 0.54x as on March 31, 2020. Furthermore, the asset quality of the company also remains healthy with nil gross and net NPA as on March 31, 2021 and nil gross and net NPA as on March 31, 2020.

#### **Steady flow of revenue in the form of dividend income**

Over the years, the company has consistently been deriving income majorly in the form of dividend income from its investments. During FY21 (refers to the period April 01 to March 31), the company recorded dividend income of Rs. 35.45 crore (55% of total operating income). BACL derived interest income of Rs. 9.50 crore during FY21 vis-à-vis Rs. 10.06 crore during FY20. Apart from that, the company also derived revenue from rental income.

#### **Adequate Liquidity**

The company has cash and bank balances of Rs. 3.63 cr (PY: Rs. 4.74 cr) and mutual fund balances of Rs. 18.08 cr (1% of total assets) (PY: Rs. 32.90 cr) as on March 31, 2021. None of the shares of major JK group companies are pledged as on March 31, 2021, thus providing liquidity buffer to the company. Also, as per BACL's Asset Liability Management (ALM) statement dated March 31, 2021, the company had no negative cumulative mismatches in any of the buckets. In addition to this, the company also did not avail any moratorium for the servicing of its bank facilities and these were completely paid off during FY21.

#### **Key Rating Weaknesses**

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

BACL held approximately 78.65% of the total assets (Rs. 1,255.78 crore) as on March 31, 2021, in the form of investments majorly invested in group companies. With dividend being the major source of income for BACL, its future is directly linked to the performance of its group companies. Given the cyclical nature of industries like cement, tyre, paper, etc. in which the group is operating, any decline in performance of those industries might affect revenue stream of BACL and its debt repayment capacity. However, the presence of the group companies in various industries also diversifies BACL's investment portfolio to some extent and reduces its dependence on any one particular company. BACL, as the holding company for the

JK group companies, is committed towards meeting any incremental investment requirements arising in the group companies for any expansion and growth plans of such companies. Moreover, with the group companies belonging to cyclical industries, any support extended may adversely affect the credit and financial risk profile of BACL. However, as guided by the management, BACL does not envisage any major investment or support extended to the group companies in the near time period.

#### Exposure to market-related risks

Exposure to market-related risks persist, as financial flexibility in terms of the cover available will depend, to some extent, on prevailing market sentiments and share prices. Any increase in market-related risks, leading to a sharp fall in the share prices of investments in JKAL, JKLC, JKTIL, etc. will be a key rating sensitivity factor.

**Analytical approach:** Standalone

#### Applicable Criteria

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

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

[Financial Ratios - Financial Sector](#)

[Rating of loans by investment holding companies](#)

[Rating Methodology - Notching by factoring linkages in Ratings](#)

[CARE's Issuer Rating](#)

#### About the Company

Bengal & Assam Company Ltd (BACL) is the holding company for 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 investment holding company for the JK group companies and doesn't engage in lending to third parties outside 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 like 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).

Further, during FY19, Board of Directors of BACL approved a scheme of arrangement between Florence Investech Ltd ('Florence'), BMF Investments Ltd ('BMF'), J.K. Fenner (India) Ltd ('FIL') and Bengal & Assam Co Ltd ('Transferee Company') and their respective shareholders for amalgamation of Florence & BMF ('Transferor Companies'), engaged in the same activity (holding companies), with the Transferee Co w.e.f. April 01, 2017 ('Appointed Date'). The Scheme came into effect after the approvals from Stock Exchange & sanction of National Company law Tribunal (NCLT) on May 24, 2019. Further pursuant to the scheme taking effect, JK Tyre & Industries Ltd, JK Agri Genetics Ltd & Umang Diaries Ltd became the subsidiaries of Bengal & Assam Co Ltd from the appointed date.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	182.70	64.41
PAT	125.35	23.25
Interest coverage (times)	3.93	1.70
Total Assets	1,251.99	1,255.78
Net NPA (%)	0.00	0.00
ROTA (%)	9.95	2.00

A: Audited

**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

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE AA- (Is); Stable

**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.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AA- (Is); Stable	-	-	-	-

**Annexure-3: Detailed explanation of covenants of the rated instrument/facilities – Not Applicable**

**Annexure 4: Complexity level of various instruments/facilities rated for this company**

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

**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.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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