

## Bhavani Impex

January 22, 2021

### Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	3.00	CARE B-; Stable; ISSUER NOT COOPERATING* (Single B Minus; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE B; Stable; (Single B; Outlook: Stable)
Short Term Bank Facilities	7.00	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category
<b>Total Bank Facilities</b>	<b>10.00</b> <b>(Rs. Ten Crore Only)</b>		

*Details of instruments/facilities in Annexure*

#### Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated February 24, 2020 placed the rating(s) of Bhavani Impex (BI) under the 'issuer non-cooperating' category as BI had failed to provide information for monitoring of the rating. BI continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and email dated January 13, 2021. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

***Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.***

The rating has been revised by taking into account of non-availability of requisite information due to non-cooperation by BI with CARE's efforts to undertake a review of the outstanding rating as CARE views information availability risk as a key factor in its assessment of credit risk.

#### Detailed description of the key rating drivers

*At the time of last rating on February 24, 2020 the following were the rating strengths and weaknesses:*

#### Key Rating Weaknesses

***Small scale of operations with weak debt coverage indicators and thin profitability margins albeit improvement in the total operating income.***

The scale of operations of the firm remains small marked by TOI of Rs.26.74 crore and low net worth base of Rs.4.07crore during FY18. However, total operating income has been improved in the review period by 81% in the review period.

The debt protection metrics of the firm continues to be weak witnessed by TD/GCA at 62.34x as on March 31, 2018 as against 48.57x as on March 31, 2017 on account of marginal increase in debt quantum along with low cash accruals earned by the firm in the corresponding year. However, interest coverage ratio stood satisfactory at 1.10x during the review period.

Though there is an increase in the TOI of the firm, the Profitability margins has been declined in the review period. PBILDT margins has declined by 49bps mainly on account of high customs duty paid and PAT margin declined by 55bps, owing to decline in absolute value of PBILDT as well as interests costs associated with utilization of working capital facility. Further, the profitability margins of the firm stood thin owing to trading nature of business and presence in high competitive industry.

#### ***Highly fragmented and competitive business segment due to presence of numerous players***

The firm is into a fragmented business segment and competitive industry. The market consists of several small to medium-sized firms that compete with each other along with several large enterprises. There are several small sized firms in and around Shencottah area in Tamil Nadu which compete with BI.

#### ***Constitution of a partnership concern with risk of withdrawal of capital***

The firm was established as a partnership concern and the risk of withdrawal of partner's capital prevails. There is parity between the existence of the firm and the life of the partners. The capital was withdrawn from the business on account of infusion of the same in the group entities. Infusion of capital was in parity to the prevailing market conditions.

#### ***Foreign currency fluctuation and government regulations on industry***

The firm is mainly importing raw material from countries in Asia, South America and Africa. Its import procurements constitute 100% of its total purchases. All the sales however are concentrated to the domestic market, particularly Tamil Nadu, Karnataka and Kerala. As a result of foreign procurements and no hedging mechanism, the firm is exposed to foreign

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

\*Issuer did not cooperate; Based on best available information

exchange fluctuation risk. However the firm has reported a dollar difference of Rs. 0.37crore during FY17. Revenue is further susceptible to government regulatory policies in relation to import-export duties, custom duties, restriction on volume of imports, freight rates, port charges etc.

#### **Working Capital Intensive Nature of Business**

The nature of operations of the BI continues to be working capital intensive, however, improved from the previous year, marked by working capital cycle at 81 days in FY18 as against 148 days in FY17. The firm usually offer credit period from 60 to 90 days for their customers, however it may elongate more than that as the firm wants to retain their customer base. The working capital requirements of the firm are funded partially through creditors' payments along with usage of fund based working capital facilities from the bank. Further, the average utilization of working capital limits by the firm for the last 12 months ended December 2018 was around 80%.

#### **Key Rating Strengths**

##### **Vast experience of the partners in timber industry**

The partners of the firm, Mr.Jagadish L Patel, Mr. Rajesh L Patel, Mr.Mukesh L Patel and Mr.Aswin L Patel have hands on experience in trading and processing timber wood into useful raw materials. The partners of the firm have been associated in this industry through the associate concerns, Bhavani Timber Tipo and Bhavani Enterprises which was established in 1987 and 2002 respectively by their fathers and forefathers.

##### **Comfortable capital structure**

The capital structure of the firm continues to be at comfortable level marked by the overall gearing ratio and debt equity ratio at 0.97x and 0.03x respectively as on March 31, 2018, as against 0.88x and 0.02x as on March 31, 2017. Though the debt levels increased marginally in FY18, tangible net worth also increased parallelly due to plough back of previous year's profit. However, the unsecured loans borrowed increased by Rs.0.60 crores in FY18 which was utilized for meeting trade expenses.

##### **Improvement in the Total Operating Income (TOI)**

The TOI of the firm in FY18 has been increased by 81%. This increase in total operating income factored by sharing of a significant portion of business from the associate concern, M/s. Bhavani Timber Tipo, (which also engaged in same line of business), for the firm's internal convenience. Due to this, the firm scale of operations will hopefully improve to some extent in the forthcoming years.

**Analytical approach:** Standalone

#### **Applicable criteria**

[Policy in respect of Non-cooperation by issuer](#)

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

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

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

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Manufacturing Companies](#)

#### **About the firm**

Bhavani Impex (BI) was established as a partnership concern by Mr.Jagadish L Patel, Mr. Rajesh L Patel, Mr.Mukesh L Patel, Mr.Aswin L Patel and Ms.Keerthi S Patelin 2013. BI is engaged in trading of timber logs. The firm deals with Burma Teak, paddock timber, Mora round log and Merbauvariety of timber. The firm imports these varieties from Asian countries like Malaysia, Singapore and a few African and South American countries. The timber logs are sold in the domestic market to the customers in Tamil Nadu, Karnataka and Kerala. The registered office of BI is in Shencottah, Tamil Nadu.

<b>Brief Financials (Rs. crore)</b>	<b>FY17(A)</b>	<b>FY18 (A)</b>
Total operating income	14.70	26.74
PBILDT	0.79	0.72
PAT	0.04	0.02
Overall gearing (times)	0.88	0.97
Interest coverage (times)	1.10	1.10

A: Audited

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**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
Fund-based - LT-Cash Credit	-	-	-	3.00	CARE B-; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-ILC/FLC	-	-	-	7.00	CARE A4; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; Based on best available information

**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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	3.00	CARE B-; Stable; ISSUER NOT COOPERATING*	-	1)CARE B; Stable; ISSUER NOT COOPERATING* (24-Feb-20)	1)CARE B; Stable (19-Dec-18)	1)CARE B; Stable (13-Dec-17)
2.	Non-fund-based - ST-ILC/FLC	ST	7.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4; ISSUER NOT COOPERATING* (24-Feb-20)	1)CARE A4 (19-Dec-18)	1)CARE A4 (13-Dec-17)

\*Issuer did not cooperate; Based on best available information

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities-** Information not available**Annexure 4: Complexity level of various instruments rated for this Firm**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-ILC/FLC	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.

## Contact us

### Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Group Head Name – P.Shanti

Group Head Contact no.- 040-67937417

Group Head Email ID - [p.shanti@careratings.com](mailto:p.shanti@careratings.com)

### Business Development Contact

Name: Pradeep Kumar

Contact no. : 044-28501001

Email ID : [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

### About CARE Ratings:

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