

Bhaskar Industries Private Limited

November 22, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	261.72 (Reduced from 268.50)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short Term Bank Facilities	36.78 (Enhanced from 30.00)	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Bank Facilities	298.50 (₹ Two Hundred Ninety-Eight Crore and Fifty Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

The upgrade factors in the recovery in the BIPL's operational performance in FY22 & H1FY23, diversified customer base and its adequate liquidity. The rating continues to derive strength from experienced promoters and strong business profile. However, the rating continues to remain constrained by working capital intensive nature of operations, repetition of damage to machinery during August 2022, modest capital structure and susceptibility to volatility in raw material price and foreign exchange rates.

Rating sensitivities

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

- Improvement in revenue above 800.00 crores on sustainable basis.
- Improvement in operating margin and its sustainability above 10.0%.
- Improvement in ROCE on a sustained basis to 12%

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

- Deterioration of capital structure on account of debt funded capex, high working capital requirements with overall gearing exceeding 1.00x.
- PBILDT margin declining below 8.5% on a sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Recovery in BIPL's operational performance in FY22 & Q1FY23:

The improvement in operational performance is reflected by increase in capacity utilisation of BIPL both in FY22 & Q1FY23. The increasing demand for denim has resulted in improvement in the capacity utilisation of BIPL. The utilisation in yarn segment stood at 89% & 76% in FY22 & Q1FY23 (FY21: 22%). In addition to this, the denim segment has achieved 94% & 100% utilisation level in FY22 & Q1FY23 (FY21:64%). Pent-up demand along with changing customer demographics, increasing westernisation, etc had led to increase in demand for the product and is expected to sustain in near to mid-term.

The margins have improved despite of increase in raw material prices. As against 42% average increase in raw material prices, the company was able to increase the realisation per unit by ~20%. During FY22, the margins stood at 10.43% (H1FY23: 9.59%; FY21: 8.63%). This partially mitigated the price risk. The increasing pace of revenue as against almost stable fixed obligation, improved operating efficiency and increasing export share has resulted in margins to improve in FY22 which continued its momentum in Q1FY23 as well.

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

With strong profitability, the interest coverage of BIPL improved to 4.06x in FY22 and the sustainability of the same is seen in Q1FY23 at 3.74x.

Capex completion status and its benefit in near to mid-term:

BIPL has completed its capex by Q1FY23, and the capex amount was finalised at Rs.80.00 crores as against earlier projected amount of Rs.110.00 crores. The revision in capex amount is due to low enhancement in capacity as envisaged earlier. Out of the said capex cost, ~69% of cost has been funded by debt. This capex related to upgradation of machineries and enhanced capacity is expected to enable the company in improving its operating efficiency which has been observed in FY22 & Q1FY23. Also, with the enhanced spinning capacity to resume from this calendar year, the captive utilisation of raw materials will increase thus benefitting the company in terms of EBITDA.

Diversified customer base:

BIPL has a diversified large customer base with no single customer accounting for over 5% of gross sales. Its top ten customers contributed 31.39% (FY21: 32%). BIPL's customers are geographically diversified as the company sells its products both domestically as well as exports it across the various countries. However, export sales remain concentrated with Bangladesh continuing to contribute more than 70% of total export in FY22. During FY22, the share of exports to the total income stood at 21% as against 28% during FY21.

Strong business profile:

BIPL continues to be one of the larger denim manufacturing units in India based on installed capacity. As on November 17, 2022, BIPL has denim manufacturing capacity of 38.6 mmpa (million metres per annum) and spinning capacity of 15,000 MTPA (metric tons per annum). BIPL continues to benefit from its integrated denim manufacturing facilities ranging from spinning to yarn dyeing to weaving and finishing. It also manufactures yarn, the captive utilisation of which benefits the company. BIPL continues to sell its products both domestically as well as exports it across various countries. Domestic sales accounted for ~79% of the total sales for FY22 (FY21: 71%).

Key rating weaknesses**Modest capital structure and debt coverage indicators:**

The overall adjusted overall gearing ratio stood at 1.06x in FY22 (FY21: 0.87x) given the investment in its group companies in form of equity shares. However, the overall gearing ratio continues to be below unity in FY22 at 0.70x (FY21: 0.55x). Considering the working capital-intensive operations, the working capital facilities including the vendor financing limits comprises 61% of total debt profile, followed by 30% of long-term loan. With enhancement in working capital facilities, the debt level of the company is expected to increase and remain at modest level. However, with continued improvement in operational performance of BIPL, the impact on overall gearing will not be significantly adverse.

Working capital intensive nature of operations:

BIPL's working capital cycle continues to remain elongated; however, it has resumed to pre-covid level at 124 days in FY22 with improvement observed in collection and inventory days at 73days (147 days) and 95 days (164 days). Given the increasing price trend observed in raw materials, the company has enhanced its working capital limits at Rs.160.00 crores from Rs.123.00 crores. The average utilisation for which remains around 90% for last twelve months ended October 2022. The company continues to procure cotton/cotton yarn from domestic players mainly against cash basis and also against credit.

Asset damage continues to remain issue due to water logging; resolution expected in 2023:

During August 2022 as well, the company had witnessed water logging, because of which machineries were damaged. Total damage value is Rs.60.00 crores, out of which company expects Rs. 30.00 crores from salvage value and remaining from insurance. Same incident had been witnessed August 2020 as well, wherein the damage was to the extent of Rs.73 crores, out of which 20.24 crores was recovered from salvage value and rest from insurance. The balance amount of Rs.24.80 crores of insurance claim of August 2020 against the damage is expected to receive within one month in this calendar year.

To avoid these repetitive damages due to heavy monsoon, the company is planning to level the low-lying space of the unit to avoid water logging. For this total cost would be around Rs.15.00 crores and same would be 67% funded by bank loan and rest from internal accruals.

Volatility in raw material prices and foreign exchange rates

Major raw materials used by BIPL include cotton/cotton yarn. Cotton prices are volatile in nature driven by various factors like, demand-supply mismatch, area under cultivation, yield for the year, government regulation and pricing, etc. Hence profitability of the company continues to remain highly susceptible to raw material price fluctuation which has exhibited considerable volatility in the past. However, BIPL mainly follows order-based production policy wherein around 50-60% of the goods are produced against orders which minimizes inventory fluctuation risk. Also, the price pass through to the customers partially mitigates the pricing risk. Additionally, BIPL, continues to face risk of volatilities in foreign exchange rates as the company derives around 20%-30% of revenue from exports.

Cyclicality, fragmented and competitive nature of industry

BIPL continues to have high product concentration risk with denim contributing around 97% to its sales (incl. captive sales) in FY22 (FY21:97%). BIPL's high dependence on denim makes it susceptible to risk associated with a downturn in the denim industry. The denim industry is inherently cyclical in nature. The demand is directly linked to the consumption trends and disposable income levels and the general economic outlook of the country. Further, it remains vulnerable to various factors such as fluctuations in prices of cotton, crude oil, mobilisation of adequate workforce and changes in government policies for overall development of the textile industry. The textile industry, as a whole, is also highly competitive and fragmented in nature with a large number of players operating in the organised and unorganised sector.

Liquidity: Adequate

The liquidity of the company continues to remain adequate with gross cash accrual at Rs.47.78 crores in FY22. The gross cash accruals are expected to remain above Rs. 40.00 crores in upcoming years as against the principal repayment of Rs.19.97 crores and Rs.23.72 crores in FY23 & FY25. The average utilization of fund-based limits is around 90% for last twelve months ended October 31, 2022. The cash and cash equivalents stood at Rs. 10.92 crores as on March 31, 2022.

Analytical approach: Standalone

For arriving at the ratings, CARE has considered the standalone financial of BIPL and deriving comfort from its association with Dainik Bhaskar group.

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Cotton Textile](#)

[Manufacturing Companies](#)

About the company

Incorporated in 1985, Bhaskar Industries Private Ltd (BIPL) is a part of the Dainik Bhaskar (DB) group promoted by the Agarwal family which is well known for its association with print media through D B Corp Ltd one of the leading print media companies in India. BIPL has integrated denim manufacturing facilities ranging from spinning to yarn dyeing to weaving and finishing. BIPL is primarily engaged in the manufacturing of denim fabric; it also manufactures cotton yarn. BIPL is one of the larger denim manufacturing units in India on the basis of installed capacity. BIPL has denim manufacturing capacity of about 38.6 mmpa (million metres per annum) and spinning capacity of 15000 MTPA (metric tons per annum).

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	H1FY23 (UA)
Total operating income	379.85	729.84	386.00
PBILDT	32.79	76.15	37.00
PAT	4.68	24.82	NA
Overall gearing (times)	0.55	0.70	NA
Interest coverage (times)	1.82	4.06	3.08

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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	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-Bill Discounting/ Bills Purchasing		-	-	-	25.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit		-	-	-	160.00	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	June, 2028	76.72	CARE BBB+; Stable
Fund-based - ST-Vendor financing		-	-	-	11.78	CARE A3+
Non-fund-based - ST-BG/LC		-	-	-	25.00	CARE A3+

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-BG/LC	ST	25.00	CARE A3+	1)CARE A3 (04-Oct-22)	1)CARE A3 (CWV) (03-Feb-22) 2)CARE A3 (CWV) (04-Aug-21)	1)CARE A3 (08-Jan-21)	1)CARE A3+ (02-Jan-20)
2	Fund-based - LT-Cash Credit	LT	160.00	CARE BBB+; Stable	1)CARE BBB; Stable (04-Oct-22)	1)CARE BBB (CWV) (03-Feb-22) 2)CARE BBB (CWV) (04-Aug-21)	1)CARE BBB; Stable (08-Jan-21)	1)CARE BBB+; Stable (02-Jan-20)
3	Fund-based - LT-Term Loan	LT	76.72	CARE BBB+; Stable	1)CARE BBB; Stable	1)CARE BBB (CWV)	1)CARE BBB; Stable	1)CARE BBB+; Stable

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
				Stable	(04-Oct-22)	(03-Feb-22) 2)CARE BBB (CWN) (04-Aug-21)	(08-Jan-21)	Stable (02-Jan-20)
4	Fund-based - ST-Vendor financing	ST	11.78	CARE A3+	1)CARE A3 (04-Oct-22)	1)CARE A3 (CWN) (03-Feb-22) 2)CARE A3 (CWN) (04-Aug-21)	1)CARE A3 (08-Jan-21)	-
5	Fund-based - LT-Bill Discounting/ Bills Purchasing	LT	25.00	CARE BBB+; Stable	1)CARE BBB; Stable (04-Oct-22)	1)CARE BBB (CWN) (03-Feb-22) 2)CARE BBB (CWN) (04-Aug-21)	1)CARE BBB; Stable (08-Jan-21)	-

*Long term/Short term.

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

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Bill Discounting/ Bills Purchasing	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based - ST-Vendor financing	Simple
5	Non-fund-based - ST-BG/LC	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 instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us**Media Contact**

Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Soumya Dasgupta
Contact no.: 91 - 22 - 6754 3456
Email ID: soumya.dasgupta@careedge.in

Relationship Contact

Name: Saikat Roy
Contact no.: +91-98209 98779
Email ID: saikat.roy@careedge.in

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