

## Bachmann Industries India Limited

April 26, 2022

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	16.37	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Short Term Bank Facilities	15.00	CARE A4 (A Four)	Assigned
<b>Total Facilities</b>	<b>31.37</b> <b>(Rs. Thirty-One Crore and Thirty-Seven Lakhs Only)</b>		

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Bachmann Industries India Limited (BIIL) are primarily constrained by its small scale of operations, leveraged capital structure and weak debt coverage indicators. Further, the ratings are also constrained by risk associated with its elongated operating cycle, foreign exchange fluctuation risk, raw material price fluctuations risk and highly competitive industry, business risk associated with tender-based orders and fortunes linked to end user industry.

The ratings, however, draw comfort from experienced directors coupled with long track record of operations and moderate profitability margins.

### Rating Sensitivities

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

- Improvement in scale of operations to around Rs.70.00 crore and above over the medium term on sustained basis.
- Improvement in profitability margins as marked by PBILDT and PAT margin above 15.00% and 5.00% respectively on sustained basis.

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

- Deterioration in the capital structure as marked by overall gearing ratio of above 2.50x.
- Continued elongation in the operating cycle of the company beyond 300 days.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**Small scale of operations:** BIIL's scale of operations stood small as marked by total operating income of Rs.33.59 crore and gross cash accruals of Rs.0.94 crore respectively, during FY21 (FY refers to the period April 1 to March 31). Nevertheless, the scale remains small; it limits the company's financial flexibility in times of stress and deprives it of scale benefits. Moreover, BIIL's scale of operations remained declining for the period FY19-FY21 (refers to the period April 1 to March 31). TOI declined in FY21 on account of lockdown in the country in the wake of COVID-19 pandemic. Further, the company has achieved a TOI of ~Rs.28.00 crore during FY22 (refers to the period April 1 to March 31; based on provisional results).

**Leveraged capital structure and weak debt coverage indicators:** The capital structure of the company stood leveraged as on the past three balance sheet dates ending March 31, '19-'21 on account of higher reliance on external borrowings to fund working capital requirements of business against limited net worth base. Overall gearing ratio stood at 1.79x as on March 31, 2021 showing improvement from 2.03x as on March 31, 2020 mainly on account of repayment of loan coupled with accretion of profits to net reserves.

Owing to high debt levels, the debt coverage indicators of the company stood weak as marked by interest coverage ratio and total debt to GCA which stood at 1.58x and 24.50x respectively in FY21 as against 1.57x and 25.17x respectively in FY20.

**Elongated operating cycle:** The operations of the company stood elongated as marked by operating cycle of 278 days for FY21 as against 259 days for FY20 with majority of funds blocked in inventory and a moderate portion in debtors owing. Owing to large product portfolio, BIIL is required to maintain adequate inventory in the form of raw material to ensure smooth production process as well as maintain stock of finished products in order to meet the immediate demand of the customers which resulted in an average inventory holding period of around 208 days for FY21. The company has to offer liberal credit period ranging from 3-4 months to its customers resulting in an average collection period of around 153 days for FY21. Further, the company receives an average credit period of around 2-3 months from its suppliers resulting in average creditor's period of 84 days for FY21. The average utilization of the working capital limits remained around 50% for the past 12 months period ending March, 2022.

**Foreign exchange fluctuation risk:** BIIL meets ~7% (FY21) of its procurement in the form of imports while it sells its finished products in domestic market. With initial outlay in foreign currency and inflows in domestic currency, the company is exposed to volatility in foreign exchange rates. However, the company does not hedge its foreign currency exposure thus, profitability margins are exposed to volatility in foreign exchange rates. Moreover, any change in government policies, either domestic or international

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

is likely to affect the company's revenues. Earnings are also susceptible to strict regulatory policies relating to tariff barriers (custom duty), non-tariffs barriers (restriction on the quality of imports), anti-dumping duties, international freight rates and port charges.

**Raw material price fluctuations risk and highly competitive industry:** The company is exposed to the raw material price volatility risk due to the volatility experienced in the prices of steel and allied products and their prices fluctuates rapidly due to demand supply gap. Raw materials such as stainless steel, etc. constitute a major component of the raw material of the total cost of production; hence any volatility in their prices has a direct impact on the profitability margins of the company. Furthermore, BIIL operates in highly competitive industry characterized by the presence of large number of players in the unorganized sector and organized sectors. There are number of small and regional players catering to the same market which has limited the bargaining power of the company and has exerted pressure on its margins.

**Business risk associated with tender-based orders:** The company majorly undertakes engineering projects, which are awarded through the tender-based system. The tender-based business is characterized by intense competition and the growth of the business depends on its ability to successfully bid for the tenders and emerge as the lowest bidder.

The company mainly caters to orders received from various semi-government entities and other private entities. The high concentration on government contracts also makes the company susceptible to any changes pertaining to government policy in regard to awarding tenders to contractors. BIIL has to participate in the tenders floated by various government agencies which can be lengthy at times. Moreover, the company is dependent on government spending for the total capital expenditure presented in the union budget every year.

**Fortunes linked to end user industry:** The products of BIIL find its uses in engineering and capital goods industry which are inherently vulnerable to economic cycles. Any slowdown in the business activities of these industries which results in adverse impact on the investment in new projects will have a direct impact on the business operations of the company. Thereby, any adverse impact on the investments in the end user industries will also impact the revenue and profitability of BIIL.

### Key Rating Strengths

**Experienced directors coupled with long track record of operations:** Mr. Michael William Sheppard, Mr. Rajesh Maheshwari, Mr. Shyam Manohar Maheshwari and Mr. Gaurav Chandhok are the directors of the company and they collectively look after the overall operations of the company. Mr. Rajesh Maheshwari, (Chairman & Managing Director) has accumulated vast experience of nearly three decades in manufacturing of engineering products business through his association with this entity and other family run business. He is well supported by other directors of the company in managing day-to-day operations of the company. The company is having a considerable track record in this business which has resulted in long term relationships with both suppliers and customers.

**Moderate profitability margins:** The profitability margins of the company are directly associated with designing aspect of the order. The highly and complex design in nature normally fetches better margins. The profitability margins of the company stood moderate for the last three financial years (FY19-FY21) wherein the company reaps benefits of its established image in the regional market. Thus, PBILD and PAT margin stood at 10.51% and 2.41% respectively for FY21 as against 10.59% and 2.37% in FY20.

### Liquidity: Stretched

The liquidity position of the company remained stretched characterized by tightly matched accruals vis-à-vis repayment obligations as evident from gross cash accruals to the extent of Rs.0.94 crore during FY21 and is expected to generate envisage GCA of Rs.0.98 crore for FY22 against repayment obligations of Rs.0.52 crore in same year. Further, the company has low cash & bank balances which stood at Rs.0.33 crore as on March 31, 2021. However, the working capital limits are 50% utilized for the past 12 month's period ending March, 2022.

**Analytical approach:** Standalone

### Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

### About the Company

Delhi based, Bachmann Industries India Limited (BIIL) was incorporated in October, 1987 as a public limited company (closely held). The company is currently directed by Mr. Michael William Sheppard, Mr. Rajesh Maheshwari, Mr. Shyam Manohar Maheshwari and Mr. Gaurav Chandhok. The company is engaged in the manufacturing of fuel gas control, isolation equipment's, DG sets, control panels, piping's, dampers, glandular valves/ spades and other engineering products majorly used in the power plants. It has one plant each in Faridabad (Haryana) and Chennai. The company majorly deals with semi-government entities which contributes 80% in their top line and remaining 20% are from the private entities.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (Prov.)
Total operating income	34.41	33.59	28.00
PBILDT	3.64	3.53	NA
PAT	0.82	0.81	NA
Overall gearing (times)	2.03	1.79	NA
Interest coverage (times)	1.57	1.58	NA

A: Audited; Prov.: Provisional; NA: Not Available

**Status of non-cooperation with previous CRA:** Brickwork Ratings has conducted the review and has classified Bachmann Industries India Limited as "Not Cooperating" vide its press release dated March 2, 2022.

**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 firm:** Annexure- 4

#### Annexure-1: Details of Instruments / 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		-	-	-	14.00	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	July, 2024	2.37	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	14.00	CARE A4
Non-fund-based - ST-Letter of credit		-	-	-	1.00	CARE A4

#### 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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	14.00	CARE BB-; Stable				
2	Fund-based - LT-Term Loan	LT	2.37	CARE BB-; Stable				
3	Non-fund-based - ST-Bank Guarantee	ST	14.00	CARE A4				
4	Non-fund-based - ST-Letter of credit	ST	1.00	CARE A4				

**Annexure-3: Detailed explanation of covenants of the rated instrument / 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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	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 Ratings Ltd. 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.

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