

BKM Industries Limited

August 24, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	80.00	CARE BBB; Negative (Triple B; Outlook: Negative)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable) with change in outlook from Stable
Short-term Bank Facilities	28.50	CARE A3+ (A Three Plus)	Revised from CARE A2 (A Two)
Total Facilities	108.50 (Rupees one hundred eight crore and fifty lakhs only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating takes into account the deterioration in the financial performance of the company in Q1FY19 (refer to the period from April 01 to June 30) marked by cash losses arising out of lower demand during the said period.

The rating continues to draw strength from the experience of the promoter, reputed clientele and satisfactory capital structure.

The ratings, though, remain constrained by high exposure to group companies, profitability susceptible to volatility in the prices of raw materials, exposure to foreign exchange fluctuation risk, working capital intensive nature of operations and risk associated with large-size debt funded project.

Going forward, the ability of the company to successfully complete the ongoing project & derive the envisaged benefits therefrom, diversify client base, improve profitability and efficient management of working capital would remain the key rating sensitivities.

Outlook: Negative

The outlook on the long-term rating of BKM Industries limited has been revised from 'Stable' to 'Negative' on expectation of further deterioration in the financial performance of the company in the coming quarters. The outlook would be revised to 'Stable' in case of improvement in the financial performance of the company with operational stability and better cash flows visibility.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters: BKM is looked after by Mr. Basant Kr. Agrawal having four decades of business experience. He is well supported by his two sons (Mr. Aditya B Manaksia and Mr. Navneet Manaksia)

Reputed clientele: The Company has a strong client base consisting of leading players in FMCG and Pharmaceuticals industries. BKM regularly enters into short-term agreements with its customers, wherein the quantity and rate of dispatch are fixed. However, the profitability may be impacted as the company has entered into a fixed price contract with no built in escalation clause in the contract thereby restricting its ability to pass on any immediate increase in cost.

Satisfactory capital structure: BKM's overall gearing slightly improved from 0.80x as on Mar 31, 2017 to 0.72x as on Mar 31, 2018. However, Total debt/GCA declined from 8.12x in FY17 to 10.18x in FY18 on the back lower cash accruals (Rs.8.75 crore in FY18 as against Rs.10.53 crore in FY17).

Key Rating Weaknesses

Deterioration in the financial performance of the company in Q1FY19 marked by cash losses: BKM's operating income declined by 58.32% from previous quarter to Rs.17.30 crore in Q1FY19 (as against Rs 45.05 crore in Q1FY18) on the back of lower execution of orders. This coupled with under absorption of fixed cost and execution of less margin products lead to operational losses in Q1FY19. Further, higher interest expenses resulted in cash losses during the said quarter.

This apart in July 2018, the company had also decided to discontinue its manufacturing operations at the Barjora (Bankura, West Bengal) and resultantly reported loss of Rs -0.57 crore in Q1FY19.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

In FY18, BKM operating income increased by ~25% on a y-o-y basis to Rs.153.38 crore. PBILDT margins remained at satisfactory levels. Marked by increase in the interest cost, the company reported PAT of Rs.5.27 crore in FY18 as against PAT of Rs.8.32 crore in FY17.

High Exposure to Group Companies: BKM has a high exposure of Rs.51.22 crore to its group companies (Rs.32.24 crore exposure in Euroasian Ventures FZE, Rs.18.98 crore exposure in newly acquired subsidiaries), accounting for 46% of its net-worth as on Dec.31, 2017. On a consolidated basis, BKM earned PAT of Rs.12.07crore (Rs.27.87 crore in FY17) on total income of Rs.187.73 crore in FY18 (Rs.155.89 crore in FY17).

Profitability susceptible to volatility in the prices of raw materials: Raw material expense is the major cost driver for BKM, forming about 26% of the total cost of sales for FY18 (and 31% in Q1FY19). The prices of raw-material are highly volatile in nature as it is linked to the demand supply dynamics in the international market. The company has variable price contracts with ROPP customers and in case of other products it enters into fixed price contracts. Given that the raw-material prices are volatile in nature, the profitability margin of the company is exposed to fluctuation in raw-material prices.

Exposure to foreign exchange fluctuation risk: BKM's profitability is exposed to fluctuation in foreign exchange due to high dependency on imported raw-material and small presence in the export market which provides natural hedge to the company to an extent. In view of this, the company has a flexible forex hedging policy and generally partially hedges its forex exposure through forward cover.

Working capital intensive nature of operations: BKM's operation is working capital intensive in nature as it needs to provide certain credit period to its customers and stock inventories as it deals in different sizes and varieties of ROPP and Crown closures. The company imports raw material from China and Japan which involves high lead time. Further, the company has a policy of keeping adequate inventory in order to make timely delivery of orders to its customers. The working capital requirement of the company is mainly financed through a mix of internal accruals and bank borrowings.

Risk associated with large-size debt funded project: BKM is setting up a capacity expansion project at its existing manufacturing facilities at a cost of about Rs.25.00 crore. The same is expected to be funded in a debt equity ratio of 4:1. The financial closure has already been tied up. The company expects to commission the project by April 2019 (previous timeline July 2018).

Analytical approach: For arriving at the ratings, CARE has considered the standalone operations of BKM Industries Limited.

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[CARE's methodology for manufacturing companies](#)

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

About the Company

BKM Industries Ltd (BKM) was incorporated on March 25, 2011. It was a dormant company till October 01, 2013 before the demerger of packaging division of Manaksia Ltd (ML) to BKM. BKM manufactures packaging products and aluminium semi-rigid containers. Major packaging products manufactured by the company includes (1) Roll on Pilfer Proof closures for the premium liquor and pharmaceutical sector, (2) Crown closures for carbonated soft drinks and beer, (3) Plastic closures for carbonated soft drinks and mineral water sectors, and (4) Metal containers for shoe polishes, cosmetics and tea. The company currently has manufacturing facilities located in West Bengal, Telengana and Dadra & Nagar Haveli. In July 2019, the company has strategically planned to discontinue its manufacturing operations at the Barjora (Bankura, West Bengal).

In Q1FY19, BKM Industries Limited reported loss of Rs -5.50 crore (as against PAT of Rs.1.81 crore in Q1FY18) on total income of Rs.17.30 crore (Rs.45.05 crore in Q1FY18).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	122.92	153.38
PBILDT	14.75	16.96
PAT	8.32	5.27
Overall gearing (times)	0.80	0.72
Interest coverage (times)	1.67	1.54

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

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-Term Loan	-	-	June, 2022	20.00	CARE BBB; Negative
Fund-based - LT-Cash Credit	-	-	-	60.00	CARE BBB; Negative
Non-fund-based - ST-BG/LC	-	-	-	28.50	CARE A3+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	20.00	CARE BBB; Negative	-	1)CARE BBB+; Stable (07-Mar-18) 2)CARE BBB+; Stable (12-Apr-17)	1)CARE A- (13-May-16)	1)CARE A (31-Dec-15) 2)CARE A (10-Apr-15)
2.	Fund-based - LT-Cash Credit	LT	60.00	CARE BBB; Negative	-	1)CARE BBB+; Stable (07-Mar-18) 2)CARE BBB+; Stable (12-Apr-17)	1)CARE A- (13-May-16)	1)CARE A (31-Dec-15) 2)CARE A (10-Apr-15)
3.	Non-fund-based - ST-BG/LC	ST	28.50	CARE A3+	-	1)CARE A2 (07-Mar-18) 2)CARE A2 (12-Apr-17)	1)CARE A2+ (13-May-16)	1)CARE A1 (31-Dec-15) 2)CARE A1 (10-Apr-15)
4.	Commercial Paper	ST	-	-	-	1)Withdrawn (12-Apr-17)	1)CARE A2+ (13-May-16)	1)CARE A1 (31-Dec-15) 2)CARE A1 (10-Apr-15)

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