

Benara Bearings & Pistons Limited

October 22, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ^[1]	Rating Action
Long-term Bank Facilities (Term Loan)	8.41	CARE BB+; Stable (CARE Double B Plus; Outlook: Stable)	Assigned
Long Term Bank Facilities (Fund Based)	38.60	CARE BB+; Stable (CARE Double B Plus; Outlook: Stable)	Assigned
Short-term Bank Facilities (Non Fund Based)	2.99	CARE A4+ (CARE A four plus)	Assigned
Total Facilities	50.00 (Rupees Fifty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Benara Bearings & Pistons Limited (BBPL) continue to derive strength from its experienced promoters in the auto-ancillary industry, BBPL's long track record of operations and its products diversification. The ratings also factor in BBPL's moderate financial risk profile with improved capital structure and introduction of IPO.

The ratings are however, constrained by high reliance on external bank borrowings to support the working capital requirements and proposed expansion towards Retail Chain business. The ratings also take into susceptibility to raw material price fluctuation risk. Going forward, the ability of the company to profitably scale up its operations and managing its working capital requirements effectively shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of promoters and established track record of operations

BBPL is promoted by Mr. Panna Lal Jain (Chairman) aged 72 and Mr. Vivek Benara (Managing Director) aged 45. Mr. Panna Lal Jain has been associated with the company since its inception. He holds a bachelor's degree in engineering from IIT Roorkee and has around five decades of experience in the bearing industry and automotive component. Mr. Panna Lal Jain is ably supported by his son, Mr. Vivek Benara, who has more than two decades of experience in the field of auto component industry and retailing.

BBPL is engaged in manufacturing of engine bearings & bushes for stationary marine engines, pistons, pins, piston rings and marketing of products like ball bearing, spark plugs, rocker arms, timing chains etc. for around five decades.

Successful IPO leading to improvement in capital structure albeit potential expansion plans

The company raised Rs.33.49 crore from IPO proceeds and got listed on NSE SME and BSE exchange in March 2018. Owing to the proceeds, the overall gearing of the company has improved to 0.69x as on March 31, 2018 as against 1.73x as on March 31, 2017. The company has planned to utilize the aforesaid funds for working capital requirements of BBPL along with expansion plans by way of opening of retail outlets under the brand chain of "PARTSBAZAAR" for automobile parts across the country. The company has planned to open 150 stores under aforesaid retail chain till FY2023

Product diversification with its presence in pistons and bearings

BBPL has its manufacturing presence in pistons, piston pins, piston rings, engine valve and engine bearings and bushes. As on March 31, 2018, BBPL has total installed capacity of around 7.15 million units per annum for all products.

BBPL's procures its raw material requirement including i.e. Bright Steel Bar, C R Strip, B I Metal Strip and some alloys of Copper from the domestic market. The company has managed to increase its sales owing to increased domestic demand of the products.

²Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

Moderate financial profile

BBPL financial profile witnessed improvement marked by marginal increase in total operating income and improved debt/solvency indicators. In FY18, BBPL's revenue marginally increased to Rs 105.14 crore (PY: Rs 104.11 crore). Effective increase in the total operating income from automotive segment witnessed a growth of around 36% (Increased from Rs. 77.30 cr in FY17 to Rs. 105.14 cr in FY18) primarily on account of increase in overall demand of the products. In FY17 the company has generated turnover of Rs. 26.81 crore through solar business and in FY18 the same has been shifted into a separate entity in the name of Benara Solar Private Limited (wholly owned subsidiary of BBPL). The PBILDT margin of the company marginally declined to 9.59% during FY18 (PY: 10.17%) mainly due to increase in average cost of raw material consumed to Rs.268/kg in FY18 as against Rs.247/kg in FY17.

As on March 31, 2018, overall gearing of the company improved to 0.69x (PY: 1.73x) on account of improvement in net worth owing to proceeds from IPO for Rs. 33.49 crore. The net worth has increased from Rs. 20.01 crore in FY17 to Rs. 57.06 crore in FY18. However, owing to increase in debt to Rs. 39.12 crore in FY18 (PY: Rs 34.58 cr), Total Debt to GCA deteriorated to 8.66x as at the end of FY18 (PY: 6.31x).

Key Rating Weakness**Susceptibility to raw material price fluctuation risk**

Aluminum, copper, steel and steel alloys are the key raw materials used for manufacturing of piston rings, piston, bearings, bushes etc. Moreover, other metals such as iron, etc. are also consumed for manufacturing piston rings. The metal demand, especially aluminum, copper and steel, is cyclical with prices driven by demand and supply conditions in the market coupled with strong linkage to the global market. However, for after market segment, the company is exposed to raw material price fluctuation risk.

Working capital intensive nature of operations

BBPL operates in the business which depends on working capital borrowings. The operating cycle for the year ended March 31, 2018 elongated to 166 days during FY18 as against 137 days during FY17 on account of separating Solar Division into other entity named as Benara Solar Pvt. Ltd., Hence the revenue of the company (around Rs 26 crore) from solar business is now handled by its subsidiary company, Benara Solar Private Limited. Hence, after excluding turnover through Solar Division the Adjusted Working Capital Cycle for 2017 is 181 days with debtor days of 59 and inventory holding days of 137.

Competition from organized and unorganized players

BBPL operates in an industry which comprises of several players in the unorganized sector and is also characterized by high degree of fragmentation. There also exist big sized players resulting in competition in the industry. The auto component industry is characterized by low entry barriers and low level of product differentiation due to minimal technological inputs and availability of standardized machinery for production. Therefore, pricing is the key for the company to garner customer especially with no long term contracts. BBPL has a market share of around 2.74% in the organized market of pistons/piston rings in India.

Analytical approach: Standalone

Applicable Criteria

[CARE's criteria on assigning outlook to credit ratings](#)

[CARE's policy on default recognition](#)

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

[Rating Methodology – Wholesale Trading](#)

[CARE's methodology for auto-ancillary sector](#)

[CARE's criteria for short term instruments](#)

[CARE's rating methodology on financial ratios – Non-financial sector](#)

About the Company

Benara Bearings & Pistons Ltd (BBPL) was incorporated in 1970 by Mr. Panna Lal Jain, a first generation entrepreneur, to manufacture aftermarket automotive parts. The company was originally incorporated as Benara Automotives Private Limited (BAPL) and then changed its name to PHB Engineering Limited in the year 1993. Later in 2002, the name of the company was changed to Benara Bearing & Pistons Limited. In March, 2018, the company raised Rs 33.49 cr through IPO proceeds and got listed on NSE SME and BSE Exchange. The aforesaid money raised by promoters by diluting around 30.02%. BBPL has 2 units in Agra, Uttar Pradesh which manufactures engine bearings & bushes for stationary marine engines, pistons, pins, piston rings, engine bearing and bushes for all applications. Furthermore, the company is involved in the marketing of products like ball bearing, spark plugs, rocker arms, timing chains etc. Total Installed capacity of the company is 7.15 million units p.a. which includes Engine Bearing and Bushes – 6 million units, Rings 0.65 million units, Piston Pin 0.36 million units and Pistons 0.14 million units. Brief financials of the company are as under:

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	104.11	105.14
PBILDT	10.58	10.08
PAT	4.55	3.55
Overall gearing (times)	1.73	0.69
Interest coverage (times)	2.80	2.76

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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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	-	-	October 2028	8.41	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	38.60	CARE BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	2.99	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 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	8.41	CARE BB+; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	38.60	CARE BB+; Stable	-	-	-	-
3.	Non-fund-based - ST-BG/LC	ST	2.99	CARE A4+	-	-	-	-

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