

Bengal & Assam Company Ltd

March 04, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	16.50 (reduced from 53.50)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A+; Positive (Single A Plus; Outlook: Positive)

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Bengal & Assam Company Ltd (BACL) takes into account the comfortable liquidity position and financial flexibility emanating from the significant market valuation from the holding of JK group companies (~Rs.3900 crore as on February 6, 2020). The rating further factors in the company's status as the investment company for the JK group companies & the exhibited track record of dividend payment. The rating continues to derive strength from experienced promoters & management team, strong investment profile of BACL and healthy asset quality. The rating also take cognizance of the successful completion of the proposed scheme of arrangement as announced by the Board of Directors of BACL for merging Florence Investech Ltd ('Florence'), BMF Investments Ltd ('BMF') with BACL w.e.f April 01, 2017. The rating is however constrained by BACL's dependence on dividend income and limited revenue stream. The future prospects of BACL are highly dependent on the performance of the group companies in which it has significant investments.

Rating Sensitivities

Positive Factors

- Enhancement in the financial flexibility of BACL emanating from the significant market valuation from the holding of the shares in its group companies.
- Going forward, limited incremental investment requirement from BACL in the group entities & consequently no significant increase in the borrowings of BACL.

Negative Factors

- Any substantial reduction in the market value of the investments held by BACL in the group companies.
- Substantial increase in total debt availed and further any support given to the group companies which leads to deterioration in the capital structure of BACL with overall gearing increasing beyond 1.5x on a sustained basis.

Outlook: Stable

The outlook for the bank facilities of BACL have been revised from positive to stable on account of lower than envisaged improvement in the financial & liquidity profile of BACL after the successful completion of the proposed scheme of arrangement for merging Florence Investech Ltd ('Florence'), BMF Investments Ltd ('BMF') with BACL w.e.f April 1, 2017. The lower than anticipated improvement in the financial profile of BACL is owing to the weakening of the financial profile of some of its subsidiaries & increased support provided by BACL to them.

Detailed description of the key rating drivers

Key Rating Strengths

Strong investment profile

BACL held approximately 94.61% of its total assets in the form of investments in equity share and preference share capital, debentures of subsidiaries, listed companies and unlisted companies with loans and advances forming approximately 3% of the total assets of the company as on March 31, 2019. The company has notable stake in prominent group companies like JK Lakshmi Cement Ltd. (rated 'CARE AA-; Stable' and 'CARE A1+'), JK Tyre & Industries Ltd. (rated 'CARE A; Negative' and 'CARE A1+'), JK Fenner (India) Ltd. (rated 'CARE AA-; Stable' and 'CARE A1+'), JK Paper Ltd, JK Agri Genetics Ltd. (rated 'CARE BBB+; Stable' and 'CARE A3+') and Divyashree Company Ltd. (together forming approx. 75% of total assets) in form of Investment in equity and in Loans & Advances; thus reflecting the strong investment portfolio of the company. JKLC, engaged in cement business since year 1982 has strong presence in cement industry, especially in northern and western markets of India under brand name of 'JK Lakshmi cement'. JKTIL has been engaged in tyre industry since year 1975 and is among the leading tyre manufacturers in India. JK Paper Ltd (JKPL), incorporated in 1960, is also one of the prominent players in the Indian paper and paper boards industry while JKF has an established position in the polymer industry.

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

Holding company of established industrial house with experienced promoters

BACL majorly holds investment in almost all the group companies of the JK group which was founded in year 1918. The group is actively working in the core sectors of cement, paper, automotive tyre, sugar, agri-products, etc. The group has established a reputed image and brand name over the years through its various group companies. The company is chaired by Mr Bharat Hari Singhania along with Mr Raghupati Singhania and Mrs Vinita Singhania who hold eminent positions in various JK Group companies, viz, JK Lakshmi Cement Ltd, JK Tyre Industries Ltd, JK Fenner (India) Ltd and JK Paper Ltd.

Financial flexibility and healthy asset quality

The company has robust capital structure with strong net worth base of Rs. 667.86 crore as on March 31, 2019. Its overall gearing stood comfortable at 0.83x as on March 31, 2019, vis-à-vis 0.32x as on March 31, 2018. Furthermore, its asset quality remained healthy with nil gross and net NPA as on March 31, 2019.

Steady flow of revenue, in the form of dividend income

Over the years, the company has consistently been deriving income majorly in the form of dividend income from its investments. During FY19 (refers to the period April 01 to March 31), the company recorded dividend income of Rs.55.30 crore (Rs. 33.08 crore during FY18). The significant increase in the amount of dividend during FY19 is on account of the scheme of arrangement between Florence Investech Ltd., BMF Investments Ltd., J.K. Fenner (India) Ltd. and BACL coming into effect, whereby the dividend income accruing to the 4 entities is combined and reflected in BACL's dividend income. BACL derived interest income of Rs. 4.70 crore during FY19 vis-à-vis Rs. 7.59 crore during FY18. Apart from that, the company derived revenue from rental income and profit on sale of mutual fund Investments in FY19.

Strong liquidity

BACL holds significant investments in the form of listed shares of major JK Group Companies including JK Tyre and Industries, JK Lakshmi Cement Limited, JK Paper Limited, JK Agri Genetics Limited, which provides adequate financial flexibility. As against the book value of investment of these investments of Rs. 820.53 crore (67% of total investment as on March 31, 2019), the market value of such holding stood at Rs. 3,990.48 crore as on February 6, 2020. As against this, the overall debt stood at Rs. 552.52 crore, thus indicating adequate coverage in terms of market value of holding to outstanding debt of 7.22 times as on February 6, 2020 and consequent ability to raise further debt if required. The outstanding debt stood at Rs. 373.16 cr as on December 31, 2019 and the market value of the investments to the outstanding debt is 9.84 times as on February 6, 2020. The company has comfortable liquidity position with 2.24% of total assets amounting to Rs.27.45 crore as on March 31, 2019 invested in mutual funds. Further, BACL has Rs. 35 cr as cash and mutual fund balances as on February 14, 2020. None of the shares of major JK group companies (JK Tyre Ltd., JK Lakshmi Cement Ltd. and JK Paper Ltd.) are pledged as on December 31, 2019, thus providing liquidity buffer to the company. Also, as per BACL's Asser Liability Management (ALM) statement dated December 31, 2019, the company had no negative cumulative mismatches in any of the buckets.

Key Rating Weaknesses**Dependence on group companies for growth**

BACL held approximately 75.32 % of the total assets (Rs. 1,226.08 crore) as on March 31, 2019, in the form of investments and loans & advances, which are majorly invested in group companies. With the dividend being the major source of income for BACL, its future is directly linked to the performance of its group companies. Given the cyclical nature of industries like cement, tyre, paper, etc, in which the group is operating, any decline in performance of those industries might affect revenue stream of BACL and its debt repayment capacity. The recent weakening in the financial risk profile of JK group companies, particularly JK Tyre & Industries Ltd. and JK Agri Genetics Ltd. and the resultant support extended by BACL to them led to moderation in its capital structure during FY19. However, the financial and liquidity profile of BACL has improved during the current year, but the continued weakness in the financial profile of the aforementioned group companies may result in incremental investment/support from BACL going forward. Nonetheless, the presence of the group companies in various industries also diversifies BACL's investment portfolio to some extent and reduces its dependence on any one particular company.

Analytical approach: Standalone

Applicable Criteria

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

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

[Financial Ratios - Financial Sector](#)

[Rating Methodology- Consolidation and Factoring Linkages in Ratings](#)

[Loans by Holding Companies](#)

About the Company

BACL is the holding company for JK group headed by Mr Bharat Hari Singhania as its Chairman. BACL was originally incorporated as Bengal & Assam Investors Ltd in 1947. The name of the company was changed to the present one in 1982. The company is registered as a Non Deposit Taking Systematically Important Core Investment Company (CIC-ND-SI) with Reserve Bank of India (RBI) and is thus exempt from certain compliances of RBI like minimum requirement of net owned funds and exposure norms. The company acts only as investment holding company for the JK group companies and does not engage in lending to third parties outside JK group. It has notable stake in group companies like JK Lakshmi Cement Ltd. (JKLC), JK Tyre & Industries Ltd. (JKTIL), JK Fenner (India) Ltd. (JKF), JK Agri Genetics Ltd (JKAGL) and JK Paper Ltd (JKPL).

Further, Board of Directors of BACL have approved a scheme of arrangement between Florence Investech Ltd ('Florence'), BMF Investments Ltd ('BMF'), J.K. Fenner (India) Ltd ('FIL') and Bengal & Assam Co Ltd ('Transferee Company') and their respective shareholders for amalgamation of Florence & BMF ('Transferor Companies') with the Transferee Co w.e.f April 01, 2017 ('Appointed Date'). The Scheme has come into effect after the approvals from Stock Exchange & sanction of National Company law Tribunal (NCLT) on May 24, 2019. Further pursuant to the scheme taking effect, JK Tyre & Industries Ltd, JK Agri Genetics Ltd & Umang Diaries Ltd have become the subsidiaries of Bengal & Assam Co Ltd from the appointed date.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	48.08	74.24
PAT	28.56	38.79
Interest coverage (times)	3.01	2.33
Total Assets	525.86	1,226.54
Net NPA (%)	0	0
ROTA (%)	5.19	4.43

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

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
Term Loan-Long Term	-	-	March 2021	16.50	CARE A+; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	16.50	CARE A+; Stable	-	1)CARE A+; Positive (28-Dec-18)	1)CARE A+; Positive (22-Dec-17)	1)CARE A (26-Oct-16)

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
Term Loan	The loan is secured by the following: <ul style="list-style-type: none"> • EMG of land and building situated at New Delhi • Negative lien on property in Kolkata • Registered mortgage of flat situated in Mumbai
B. Non-financial covenants	
Term Loan	The purpose of the loan is to invest in group companies in the form of loan/ inter corporate deposit (ICD)

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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