Bengal & Assam Company Ltd

December 22, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	114.50 (reduced from 149.50)	**CARE A+; Positive (Single A Plus; Outlook: Positive)**	Revised from CARE A (Single A)

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Bengal & Assam Company Ltd (BACL) takes into account comfortable liquidity position and financial flexibility emanating from the significant market valuation from the holding of JK group companies (~Rs. 2600 crore as on Nov 28, 2017). The rating revision 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 is however constrained by BACL's dependence on dividend income and limited revenue stream. Going forward, the performance of the group companies and consequent impact on BACL, any substantial reduction in the market prices of investments in the group companies, any substantial increase in total debt availed would be the key rating sensitivities.

Outlook: Positive

The Positive outlook takes into account the expected improvement in the financial & liquidity profile of the company with 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') w.e.f April 01, 2017. The outlook may however be revised to stable on account any change in the terms of the proposed scheme other than what has been laid down or any significant delay in the execution of the same.

Detailed description of the key rating drivers

Key Rating Strengths

Comfortable liquidity profile: The company has comfortable liquidity profile with substantial liquid investments in mutual funds which stood at Rs. 31.80 crore (5.54% of the total assets) as on March 31, 2017. Alongside, the company has quoted investment portfolio of Rs.275.01 crore forming (47.93% of total assets) as on March 31, 2017. Also, as against the Book Value of investment by BACL in the major JK Group companies (combined) of Rs. 275.01 crore (60% of total investment), the market value of the combined holding stood at Rs. 2623 crore as on November 28, 2017. None of the shares of major JK group companies (JK Tyre Ltd., JK Lakshmi Cement Ltd. and JK Paper Ltd.) are pledged as on Sep 30, 2017, thus providing liquidity buffer to the company. Also, as per BACL's ALM(Asset Liability Management) statement dated Sep 30, 2017, the company had no negative cumulative mismatches in any of the buckets.

Financial flexibility and healthy asset quality: The Company has robust capital structure with strong net worth base of Rs. 375.66 crore as on March 31, 2017. Its overall gearing stood comfortable at 0.52x as on March 31, 2017, vis-à-vis 0.55x as on March 31, 2016. Furthermore, its asset quality remained healthy with nil gross and net NPA as on March 31, 2017.

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

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

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.

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 FY17 (refers to the period April 01 to March 31), the company recorded dividend income of Rs.27.36 crore (Rs. 25.74 crore during FY16). BACL derived interest income of Rs. 11.31 crore during FY17 vis-à-vis Rs. 12.53 crore during FY16. Apart from that, the company derived revenue from rental income and profit on sale of Mutual Fund Investments in FY17.

Strong Investment profile: As on March 31, 2017, BACL held approximately 79.63% 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 12% of the total assets of the company. 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+; Stable' and 'CARE A1+'), JK Fenner (India) Ltd. (rated 'CARE A+' and 'CARE A1+'),JK Paper Ltd, JK Agri Genetics Ltd. (rated 'CARE A-; Stable' and 'CARE A2') and Divyashree Company Ltd. (together forming approx. 80% 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.

Key Rating Weaknesses

Dependence on group companies for growth: Of the total assets of Rs.573.82 crore as on March 31, 2017; BACL held approximately *88.40 %* of the total assets in the form of investments and loans & advances which are majorly invested in group companies. With 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. However, 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
Rating Methodology: Factoring Linkages in Ratings
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios –Financial Sector
Criteria for Short Term Instruments

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 will come into effect after the approvals from Stock Exchange & sanction of National Company law Tribunal (NCLT). Further Pursuant to the scheme taking effect JK Tyre & Industries Ltd, JK Agri Genetics Ltd & Umang Diaries Ltd will become the subsidiaries of Bengal & Assam Co Ltd from the appointed date.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	46.98	48.83
PAT	22.98	23.04
Interest coverage (times)	2.23	1.99
Total Assets	551.62	573.82
Net NPA (%)	0	0
ROTA (%)	4.36	4.09

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
Term Loan-Long Term	-	-	May 2020	114.50	CARE A+; Positive

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	114.50	CARE A+; Positive	-	1)CARE A (26-Oct-16)	1)CARE A (19-Oct-15)	1)CARE A (10-Mar-15)

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CIN - L67190MH1993PLC071691