

## Bhageria Industries Limited

February 23, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Fund Based Bank Facilities (Term Loan)	4.92 (Reduced from 6.42 crores)	CARE BBB+; Stable [Triple B Plus; Outlook: Stable]	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Long-term Fund Based Bank Facilities	30.00 (Reduced from 105 crores)	CARE BBB+; Stable [Triple B Plus; Outlook: Stable]	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short-term Fund Based Bank Facilities	53.00 (enhanced from 40.58)	CARE A2 [A Two]	Revised from CARE A3+ (A Three Plus)
Short-term Non Fund Based Bank Facilities	1.00 (Reduced from 8 crores)	CARE A2 [A Two]	Revised from CARE A3+ (A Three Plus)
<b>Total Facilities</b>	<b>88.92</b> <b>(Rupees Eighty eight crore and ninety two lakhs only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Bhageria Industries Limited (BIL) factors in the growth in revenues coupled with improvement in profit margins leading to higher gross cash accruals and comfortable debt coverage indicators in FY17 and 9MFY18 (refers to the period from April 01 to December 31). Furthermore, the revision in ratings factor in the successful commissioning of its 39MW<sub>(dc)</sub> solar power plant at Ahmednagar, Maharashtra in July 2017 along with reduction in total debt levels in the month of February, 2018 leading to improvement in capital structure.

The ratings further continue to derive strength from BIL's long track record coupled with extensive experience of the promoters in the dyes and pigment segment, diversified clientele base and short operating cycle.

However, the above strengths are tempered by BIL's modest scale of operations, customer concentration risk along with susceptibility of its profit margins to volatile raw material prices and foreign exchange fluctuations. Furthermore, the strengths are offset by BIL's solar power plant which is yet to turn profitable at PBT levels.

Going forward, BIL's ability to increase its scale of operations, improve profit margins amidst increasingly competitive environment, fluctuations in foreign exchange rates/ volatile raw material prices along with sustaining comfortable capital structure with effective management of working capital cycle and successful completion of amalgamation of Nipur Chemicals Limited (NCL) with itself would be the key rating sensitivities. CARE would also monitor the performance of the recently commissioned solar power plant and cash flow from the same.

Outlook: Stable

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### Growth in revenues coupled with improvement in profit margins in FY17 and 9MFY18

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

During FY17, the company's income from operations improved to Rs. 346.44 crore as compared to Rs.239.48 crore in FY16. This reflects an improvement of 45% in FY17 on a y-o-y basis as compared to FY16 wherein BIL witnessed de-growth of around 42% in total operating income as compared to FY15 levels. The growth in revenues in FY17 is mainly on account of increase in volumes sold of Vinyl Sulphone (Sulpho VS.), H Acid and Gamma Acid coupled with increase in realisation from sale of all products except H acid. BIL's operating profitability margins improved from 11.54% in FY16 to 18.23% in FY17 as a result of increase in realisation from sales of all its products except H acid. Consequently, PAT margins have improved from 6.40% in FY16 and to 12.56% in FY17. This has actually led to increase in gross cash accruals for the period under review. Further, in 9MFY18, BIL's PBILDT margins improved to 23.30% from 19.60% earned during the same period last year on the back of robust sales and higher realisations from its current basket of products coupled with increase in revenue earned by BIL from sale of electricity generated by its solar power plant.

**Successful commissioning of its 39MW<sub>(dc)</sub> solar power plant at Ahmednagar, Maharashtra in July, 2017; albeit the operations are yet to turn profitable at PBT levels**

In the second half of fiscal FY17, BIL had undertaken a project to install 39MW<sub>(dc)</sub> solar power plant at Ahmednagar, Maharashtra and has successfully commissioned the same in July, 2017. In 9MFY18, BIL earned revenue of Rs. 14.18 crores from the Solar business (including Rs 11.17 crore from the Ahmednagar plant). However, the solar power plant at Ahmednagar is yet to turn profitable at PBT levels as it is in its nascent stage of operations with a track record of about less than a year.

**Comfortable capital structure and debt coverage indicators**

The gearing levels of the company deteriorated from 0.19x as on March 31 2016 to 0.68x as on March 31 2017 (net of FD margin kept against the buyers' credit of Rs. 70 crores) owing to loans availed to fund on-going capex towards the 39MW<sub>(dc)</sub> solar power plant being constructed by BIL at Ahmednagar, Maharashtra. Further, the gearing levels have remained stable at 0.70x as on December 31, 2017. Interest coverage ratio, however improved, from 21.27x in FY16 to 50.81x in FY17 respectively owing to accretion of profit to net worth. In 9MFY18, however, the interest coverage ratio declined to 10.40x on the back of increase in the interest cost due to debt availed by the company for its solar power plant; nevertheless it continues to be comfortable. Further, in February, 2018, the company has repaid a major part of debt which has helped in reduction in overall debt levels. Going forward, with no major capex envisaged over the next three years, sustenance of gearing levels at comfortable levels as envisaged is critical from credit perspective.

**Short operating cycle**

The working capital cycle of the company is short at 30-40 days. The company maintains debtors and creditors days between 30-60 days while supplies from Reliance Industries are in cash and carry mode. During FY17, working capital cycle stood at 33 days (FY16: 59 days) with collection period of 47 days, inventory of 27 days and credit period of 41 days availed by the company.

**Established track record coupled with extensive experience of the management in the dyes & pigment segment**

BIL has an established track record of nearly three decades in the dyes & pigment segment and it has recently ventured in to solar power segment. The company is managed by 10-member Board having rich experience in the industry along with eminent and well qualified professionals from relevant fields.

**Key Rating Weaknesses****Modest Scale of Operations**

With total operating income of Rs. 346.44 crore during FY17 and tangible net worth of Rs.111.38 crore as on March 31, 2017, BIL is classified as a relatively modest sized entity.

**Forex risk on account of foreign currency borrowings and foreign trade**

In FY17, BIL derived around 21% of its overall revenues i.e. Rs. 71.77 crore from exports and spent around Rs 20.96 crore representing around 12% of its overall raw material requirement which is imported. Both the export and import remittances are largely denominated in US dollar. Besides, the company has a buyers credit and term loan outstanding aggregating to Rs.77.70 crore in foreign currency i.e. USD. Hence, exports form around 73% of the imports and foreign currency borrowings combined. Further, the company has not hedged its foreign currency exposure as on March 31, 2017. Thus, for the remaining 27% of imports and foreign currency borrowings, it is exposed to currency fluctuation risk.

**Volatility in raw material prices**

The principle raw materials required are caustic soda flakes, naphthalene (crude derivative) tobias acid (derivative of naphthalene), oleum 65% (highly concentrated sulfuric acid), beta naphthol and aniline which form around 51% of raw material cost. The company purchases the raw materials from the open market. The key raw materials are price sensitive and highly volatile. Thus, BIL's profitability is susceptible to volatility in prices of raw materials. Also, lag between change in raw material price and reset of finished goods price impacts the profitability of the company.

**Customer Concentration Risk**

BIL is engaged in manufacturing of chemicals, dyes and dye-intermediaries. It supplies large domestic as well as multinational players. During FY17, the top-five customers of BIL constituted around 57% (FY16: 63%) of the total income derived by BIL. Out of the top five customers, sales to one client contributed around 31% (FY16: 31%) of the total revenue generated by BIL in FY17, thereby exposing it to customer concentration risk. Any change in the procurement policy of these customers may adversely impact the business of BIL. This also exposes the BIL's revenue growth and profitability to its customer's future growth plans. However, the risk is mitigated to some extent, as the company has established relationships with its customers and has been getting repetitive orders from them.

**Analytical approach:**

Standalone Approach

**Applicable Criteria**

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

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

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

[Rating Methodology-Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

**About the Company**

Bhageria Industries Limited (BIL), formerly known as Bhageria Dye Chem Limited was established in 1989 to manufacture chemicals, dyes and dye-intermediaries. The company commenced its operations by setting up a vinyl sulphone plant at Vapi, Gujarat with capacity of 540 TPA (tonnes per annum) which has now expanded to 3,600 TPA. For H-acid and Gamma

acid, the company depends on job work. The company is also engaged in trading of agro chemicals, pigments, and various pharmaceutical ingredients.

The company has also ventured into solar power segment. Currently, BIL has almost 2.78 MW operational solar rooftop projects majorly located in Chennai. Apart from this, the company has commissioned a 39MW<sub>(dc)</sub> Solar Power plant at Ahmednagar, Maharashtra in July 2017.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	239.48	346.44
PBILDT	27.65	63.17
PAT	15.33	43.53
Overall gearing (times)	0.19	0.68*
Interest coverage (times)	21.27	50.81

A: Audited; \*The same has been considered on a net debt basis (Net of 100% FD margin kept)

#### Status of non-cooperation with previous CRA:

None

#### 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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

#### Analyst Contact:

Name: Vikash Agarwal

Tel: 022 - 6754 3405

Email: [vikash.agarwal@careratings.com](mailto:vikash.agarwal@careratings.com)

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

#### 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.

#### Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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-Buyers Credit	-	-	-	30.00	CARE BBB+; Stable
Fund-based - ST-EPC/PSC	-	-	-	53.00	CARE A2
Non-fund-based - ST-BG/LC	-	-	-	1.00	CARE A2
Term Loan-Long Term	-	-	December 2022	4.92	CARE BBB+; 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 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.	Fund-based - LT-Buyers Credit	LT	30.00	CARE BBB+; Stable	-	1)CARE BBB (30-Nov-16) 2)CARE BBB (11-Aug-16)	-	-
2.	Fund-based - ST-EPC/PSC	ST	53.00	CARE A2	-	1)CARE A3+ (30-Nov-16)	-	-
3.	Non-fund-based - ST-BG/LC	ST	1.00	CARE A2	-	1)CARE A3+ (30-Nov-16)	-	-
4.	Term Loan-Long Term	LT	4.92	CARE BBB+; Stable	-	1)CARE BBB (30-Nov-16)	-	-

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
Cell: + 91 98190 09839  
E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Mr. Ankur Sachdeva**  
Cell: + 91 98196 98985  
E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Ms. Rashmi Narvankar**  
Cell: + 91 99675 70636  
E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Saikat Roy**  
Cell: + 91 98209 98779  
E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited**

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)

**AHMEDABAD**

**Mr. Deepak Prajapati**  
32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015  
Cell: +91-9099028864  
Tel: +91-79-4026 5656  
E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**JAIPUR**

**Mr. Nikhil Soni**  
304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.  
Cell: +91 – 95490 33222  
Tel: +91-141-402 0213 / 14  
E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.  
Cell: +91 98407 54521  
Tel: +91-80-4115 0445, 4165 4529  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.  
Cell: +91-98319 67110  
Tel: +91-33- 4018 1600  
E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh  
Cell: +91 85111-53511/99251-42264  
Tel: +91- 0172-490-4000/01  
Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.  
Cell: +91-98117 45677  
Tel: +91-11-4533 3200  
E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.  
Cell: +91 98407 54521  
Tel: +91-44-2849 7812 / 0811  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.  
Cell: +91-98361 07331  
Tel: +91-20- 4000 9000  
E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.  
Tel: +91-422-4332399 / 4502399  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

CIN - L67190MH1993PLC071691

**HYDERABAD**

**Mr. Ramesh Bob**  
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.  
Cell : + 91 90520 00521  
Tel: +91-40-4010 2030  
E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)