

Bhageria Industries Limited (Revised)

August 23, 2019

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	-	-	Withdrawn*
Long-term/Short-term Bank Facilities	76.00 (Reduced from Rs.79.00 crore)	CARE A: Stable/CARE A1 (Single A; Outlook: Stable/A One)	Revised and reclassified from CARE A2+ to CARE A; Stable / CARE A1
Total	76.00 (Rs. Seventy Six crore only)		

The Long term rating assigned to Term Loan facilities have been withdrawn, as the loans are repaid in full and No-Dues was submitted by Bhageria Industries Limited (BIL) to corroborate the same.

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to bank facilities of Bhageria Industries Limited (BIL) factors in the volume backed growth in its chemical division for FY19 coupled with expansion in PBILDT margin for the same period. BIL reported 23% revenue growth (on YoY basis) in Chemical division, while PBIT margin expanded to 24% (in FY19) as against 18% in previous year. The rating revision also factors in the improvement in leverage indicators (as on Mar. 31, 2019) and debt coverage indicators for FY19 and Q1FY20. Expansion in operating profit margin, coupled with improved working capital management led BIL to report substantial expansion in its Cash Flow from Operations (CFO). The incremental cash flow garnered during the year was utilized to truncate its external borrowing which resulted in strengthening of debt coverage indicators for the period. Cash Flow from Operations (CFO) increased from Rs.39 crore (in FY18) to Rs.137 in FY19.

CARE believes, going forward, BIL would be able to garner growth rate of 11-13% in its chemical division on back of improved product mix and with some moderation in sales realization of its key products. Given the capacity expansion project is being largely funded through internal accruals, the debt coverage and leverage indicators are expected to remain comfortable in medium term.

The ratings continue to derive comfort from the experience of management and long standing track record of BIL in chemical business and its long term relationship with some of the reputed clientele and diversified revenue profile in terms of product, geography and client mix. Ratings also derives comfort from long term Power Purchase Agreement signed for its solar power sale with strong counterparty.

The ratings however, continues to be tempered by high degree of competition from the domestic dye intermediate manufacturers, susceptibility of its operating profit margins to volatility associated with as key raw materials as they are derivative of crude oil, foreign exchange fluctuation risk on both imports of raw materials and export of finished products. The rating also factors in the risk of implementation and stabilization of ongoing project and risk associated with adaptation of stringent environmental control norms from government.

Successful completion of internal accrual funded ongoing capacity expansion project within the envisaged time and cost parameters would be key rating monitorable.

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

Rating would be reviewed in case if BIL announces major debt funded expansion project or inorganic growth plan which has substantial bearing on its currently comfortable debt coverage and leverage indicators. Ratings may also be reviewed in case if PBILDT margin for any quarter falls below 18%.

Key Rating Strengths

Promoters experience in chemical industry and their long-standing relationship with reputed clientele

Promoted by Mr. Suresh Bhageria and Mr. Vinod Bahageria have over three decades of experience in dyes & dyes intermediates industry. Furthermore, BIL has a qualified management team comprising of industry personnel with over decades of relevant experience in the chemical industry.

The clientele includes some of the reputed domestic and global companies namely Everlight Chemical Industrial Corporation, Huntsman International (India) Pvt. Ltd etc. Consistent adherence to delivery schedule of its key clientele had helped BIL garner repeat order from the key customers.

The share of exports as a percent of total revenue has remained on the increasing trend since FY17, thereby, reducing its dependence on domestic market. Consequent to addition of new large export customers in FY19 has resulted in significant reduction in customer concentration risk as against previous year.

Improved revenue and profit contribution from its solar plant; timely receipt of payment from strong counterparty

BIL had entered in to solar power generation in 2015 by commissioning about 4 MW of solar power most of which are at Chennai and has PPA for 25 years at Rs.6.61 per MW. Further, BIL had also commissioned 30MW(AC) Solar power plant in July 2017 at Ahmednagar, Maharashtra having entered in to 25 year PPA with Solar Energy Corporation of India (SECI; a company under Ministry of New and Renewable Energy, Government of India) at a fixed tariff of Rs.4.41/unit. Consequent to stabilization of its solar power plants there has been a significant improvement in both revenue as well as operating profit contribution from solar division in FY19. Also, BIL continue to receive payment within 75-80 days from the date of billing by SECI.

Volume backed growth reported by Chemical segment with expansion in profit margin

BIL reported YoY growth of 24% in its Total Operating Income, both Chemical and Solar division reported robust growth during the year. The income growth in chemical division was on account of improved sales volume witnessed in all the major product categories coupled with elevated sales realization for some of the key product categories. Income from solar division also reported robust growth of 24% on YoY basis, the growth was on account of lower base year as FY19 was first full year of operations for solar division.

BIL reported expansion of 402 bps in its PBILDT margin for FY19, the margin expansion continued in Q1FY20. The expansion in PBILDT margin was on account of improved economies of scale on back of higher sales volume and improved sales realization. Solar division operated at high PBIT margin of 37% for FY19, however, its contribution in overall EBIT was only 10%.

Elevated cash accruals for FY19 led to improvement in debt coverage indicators

Expansion in profit margins coupled with efficient working capital management resulted in significant elevation in Cash Flow from Operations for FY19. The large part of incremental CFO generated during the year was used in repayment of external borrowing, which led to improvement in both leverage and debt coverage indicators. Debt coverage indicators continue to remain comfortable during Q1FY20.

CARE believes, the debt coverage indicators are expected to remain comfortable in medium term as most of the envisaged capex would be funded through internal accruals.

Efficient working capital management

Consequent to efficient working capital management the working capital cycle of the company continued to remain short at about 30-50 days. During FY19, average working capital cycle improved to 42 days (FY18: 47 days) with an average collection period of 64 days (FY18:65 days), inventory of 27 days(FY18:36 days) and credit period of 49 days(FY18:54 Days) availed by the company.

Key Rating Weaknesses

Modest Scale of Operations with high dependence on end user industry i.e. textiles

With total operating income of Rs. 466.68 crore during FY19 and tangible net worth of Rs. 342.40 crore as on March 31, 2019, BIL's operations continued to remain modest.

BILs' total revenue from operations is derived from its two business segments viz; chemical and solar with contribution of chemical business hovering around 93% (FY18: 93%) in FY19. BIL's product portfolio in chemical segment is concentrated to

three products viz, H-acid, Vinyl Sulphone and Gamma acid. However, comfort can be derived from the fact that BIL's chemical portfolio is an integrated one as some by-products generated in manufacturing of Vinyl sulphone are used in manufacturing of H-acid and vice versa. Besides, since H-acid, Vinyl Sulphone and Gamma acid are used as intermediates in manufacturing of reactive dyes which are used in textiles and leather industry. BIL's revenue is susceptible to inherent cyclicity associated with the end user industry.

Volatile raw material and finished goods prices leading to volatility in revenues and profitability

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 68% 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. The same is mitigated to some extent with long term / formula based mechanism with customers.

Operations of the company susceptible to changes in environmental regulations

Since companies manufacturing dyes and dye intermediates generate a lot of hazardous substances and waste materials, they are subject to central, state, local and foreign laws and regulations relating to pollution, protection of the environment, greenhouse gas emissions, and the generation, storage, handling, transportation, treatment, disposal and remediation of these hazardous substances and waste materials. Costs and capital expenditures relating to environmental, health or safety matters are subject to evolving regulatory requirements and depend on the timing of the promulgation and enforcement of specific standards which impose the requirements. Moreover, changes in environmental regulations could inhibit or interrupt these company's operations, or require modifications to their facilities. Accordingly, environmental, health or safety regulatory matters could result in significant unanticipated costs or liabilities. Nevertheless, BIL is a member of CETP (Central Effluent treatment Plant, Talaja), TEPS (Tarapur Environmental Protection Society) and MWML (Mumbai Waste Management Limited, Talaja), follows best in class process controls and systems and has been making efforts to achieve zero liquid discharge for its effluents.

Implementation and stabilization risk associated with the ongoing capex

Over next three years BIL plans to incur a total capex of Rs.114 .16 crore as against earlier projected total investment of Rs.108.50 crore for FY19-21 period considered at the time of last review. As indicated by the management BIL has incurred a total capex of Rs.51.16 crore in FY19 and FY20 (up to August 13, 2019). Thus, remaining capex of Rs. 100 crores (being less than 1/3rd of its networth (i.e. Rs.359.42 crore) as on June 30, 2019, the project implementation risk is considered to be lower owing to successful track record of the management to implement such large projects in the past and this being an expansion project in a similar line of business.

Liquidity Analysis

BIL operates with adequate liquidity marked by unencumbered cash and liquid investments of Rs.43.57 crore as on Mar. 31, 2019, envisaged to generate Gross Cash Accruals (GCA) of around Rs.90-100 crore during FY20 and unutilized bank limits of around Rs.30 crore. Since, there is not long term debt on books, the near term financial obligations are to the extent of interest charges.

BIL is currently implementing an expansion plans which will necessitate an investment of about Rs.100 crore up to Q1FY22. Some portion of available cash and bank might be utilized towards implementing the project.

Analytical approach: Standalone Approach as BIL has no subsidiaries.

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](#)

[Policy on withdrawal of ratings](#)

Background

Incorporated in 1989, Bhageria Industries Limited (BIL) is engaged in manufacturing of dyes & dyes-intermediaries and Solar power generation & Distribution. Under the chemical division, it has capacity to manufacture Vinyl Sulphone, H-acid and Gamma acid key dye intermediate at its plant located at Vapi and Tarapur.

Under the Solar Power segment, BIL has 4 Mega Watt (MW) rooftop capacity, having Power Purchase Agreement (PPA) with various reputed corporates, and 30 MW solar power plant located at Maharashtra and having 25 year PPA with Solar Energy Corporation of India

Brief Financials (Rs. crore)	FY18	FY19	Q1FY20
	Audited	Audited	Un audited
Total operating income	376.11	466.68	103.80
PBILDT	89.04	129.22	29.09
PAT	40.34	71.51	6.22
Overall gearing (times)	0.29	0.07	-
Interest coverage (times)	14.72	33.96	76.92

Status of non-cooperation with previous CRA: None

Any other information: NA

Rating History for last three years: Annexure 3

Annexure-3: 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	-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	75.00	CARE A; Stable / CARE A1
Fund-based - LT/ ST-Working Capital Limits	-	-	-	1.00	CARE A; Stable / CARE A1
Term Loan-Long Term	-	-	-	0.00	Withdrawn

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	-	-	-	1)CARE A-; Stable (20-Aug-18)	1)CARE BBB+; Stable (23-Feb-18)	1)CARE BBB (30-Nov-16) 2)CARE BBB (11-Aug-16)

2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	75.00	CARE A; Stable / CARE A1	-	1)CARE A2+ (20-Aug-18)	1)CARE A2 (23-Feb-18)	1)CARE A3+ (30-Nov-16)
3.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	1.00	CARE A; Stable / CARE A1	-	1)CARE A2+ (20-Aug-18)	1)CARE A2 (23-Feb-18)	1)CARE A3+ (30-Nov-16)
4.	Term Loan-Long Term	LT	-	-	-	1)CARE A-; Stable (20-Aug-18)	1)CARE BBB+; Stable (23-Feb-18)	1)CARE BBB (30-Nov-16)

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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