**Bhageria Industries Limited**
September 2, 2020

**Ratings**

| Facilities | Amount (Rs. crore) | Rating1 | Rating Action |
|---|---|---|---|
| Long term/Short term Bank Facilities | 76.00 | CARE A: Stable/CARE A1 (Single A; Outlook: Stable/A One) | Reaffirmed |
| Total Facilities | 76.00 (Rs. One hundred fifty crore only) | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Bhageria Industries Limited (BIL) continues to derive strength from experienced management coupled with long and established track record of operations in the dye-intermediate industry. BIL has geographically diversified revenue profile in terms of export and domestic market and it continues to garner repeat order owing to long standing relationship with reputed clientele base. BIL backward integration measure provides control over the cost and consistent availability of key raw material.

The rating also continues to factor in the strong financial risk profile of BIL marked by low leverage, adequate liquidity and strong debt coverage indicators. Further, the rating continues to derive comfort from the long-term Power Purchase Agreement (PPA) signed for its solar power sale with strong counterparty ensuring regular cashflows.

The above rating strengths are, however, partially offset by high 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 continues to factor 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.

Operating performance is likely to be impacted in FY21, as the Covid-19 pandemic is expected to affect overall demand, along with economic slowdown and lower demand from the textile industry. Although the production activities have resumed from May 2020, albeit the pace of capacity utilization is expected to gradually improve going forward. CARE believes that though Operating Income and operating margins are expected to moderate in FY21 due to muted demand however margins are expected to remain at healthy levels. Further, with no debt raising plans in medium term, both leverage and debt coverage are expected to remain comfortable in medium term.

**Rating Sensitivities**

**Positive Factors**

- Total Operating Income growing beyond Rs.500 crore on sustained basis coupled with sustenance of PBILDT margin between 22 – 25%
- Further diversification in its product profile with inclusion of more specialty chemical products
- Sustenance of leverage and debt coverage profile along with aforesaid mentioned points

**Negative Factors**

- Significantly large debt funded capex or leveraged acquisition, leading to sustained and major deterioration in its leverage and debt coverage indicators
- Decline in PBILDT margin below 19% on sustained basis.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

**Promoters experience in chemical industry and their long-standing relationship with reputed clientele; moderate customer concentration**

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

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

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. BIL has been focusing on diversifying its geographical presence reflected from growing exports orders reducing its dependence on domestic market. BIL has moderate customer concentration whereby its top 10 customer contribute around 55-60% of its total sales from chemical division.

**BIL continues to operate with healthy PBILDT margins**
BIL's operating margins continued to remain at healthy levels recorded at 24.55% in FY20. Although the operating margins witnessed moderation in FY20 inline with CARE's expectations, PAT margins improved on back of lower interest outgo and stable depreciation charge. BIL also reported healthy Gross Cash Accruals (GCA) to Rs 81.71 crores (PY: Rs 92.36 crores) despite moderation in Total Operating Income and margins.

**Strong leverage and debt coverage indicators**
The leverage profile is marked by healthy networth levels, low gearing and strong debt protection metrics. Networth is at around Rs 402.17 crore as on March 31, 2020 (Rs 342.40 crores a year earlier), while gearing was low at 0.05 times. Capital structure has been improving y-o-y, aided by build-up in networth and absence of any significant debt funded capex. Interest coverage and total debt to gross cash accruals is at healthy levels at 61.36 and 0.25, respectively, as on March 31, 2020.

**Healthy revenue and profit contribution from its solar plant; timely receipt of payment from strong counterparty continues**
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 healthy revenue and profit contribution from solar division. BIL receives payment within 75-80 days from the date of billing by SECI. Despite revenue decline of 7.4% in FY20 from solar segment due to unfavourable weather during the year, PBIT margins remained healthy at 37.10%.

**Prudent 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 FY20, average working capital cycle remained low at 48 days (FY19: 42 days) with an average collection period of 67 days (FY19:64 days), inventory of 33 days(FY19:27 days) and credit period of 52 days(FY19:49 Days) availed by the company.

**Key Rating Weaknesses**
**Relatively moderate scale of operations with high dependence on end user industry i.e. textiles**
BIL's scale of operations continued to remain moderate as compared to other large industry players which derive competitive edge due to their large size, wide product range of dyes intermediates, optimization of effluent handling cost and relatively more stable PBILDT margins. BILs' total revenue from operations is derived from its two business segments viz; chemical and solar with contribution of chemical business hovering around 91% (FY19: 93%) in FY20. BIL's revenue is susceptible to inherent cyclicality 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 napthol 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, Taloja), TEPS (Tarapur Environmental Protection Society) and MWML (Mumbai Waste Management Limited,

Taloja), 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 two years BIL plans to incur a total capex of Rs.47 crore as against earlier projected total investment of Rs.114.16 crore for FY19-22 period considered at the time of last review. As indicated by the management BIL has already incurred a total capex of Rs.67.16 crore in FY19 and FY20 (up to March, 2020). Thus, remaining capex of Rs. 47 crores (being less than 1/3rd of its networth (i.e. Rs. 402.17 crore) as on March 31, 2020, the project implementation risk is considered to be low 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: Adequate**
**Adequate liquidity driven by sizeable cash accrual generation against NIL debt repayments, unutilized bank lines and healthy unencumbered cash/bank balance**
BIL has a adequate liquidity marked by healthy cash accruals generation against no term debt repayment obligations, low working capital utilization and also with no plans to raise any additional external debt in the near to medium term horizon. In addition, as on June 30, 2020, unencumbered cash/bank balance stood at Rs 36 crore while unutilized bank lines stood at Rs 34.55 crore. Further, BIL is currently implementing an expansion plans which will necessitate an investment of about Rs.46.75 crore up to FY22 to be fully funded by internal accruals. BIL is expecting to generate cash accrual around Rs 63-78 crore during FY21-FY22 which would be ample to cover the capex cost. Further, with a gearing of 0.05 times as of March 31, 2020, BIL has sufficient gearing headroom, to raise additional debt for its capex if needed. The average fund based working capital utilization remained on an average at 60% utilized during 12 months ended June 2020. Liquidity comfort is also derived on account of supplies to high rated clients both in its chemical as well as solar business with established track record of debtor relization owing to its long existence in the industry resulting in to short operating cycle. Also, BIL did not avail for any moratorium on any of its debt obligations as per RBI's COVID relief package.

**Analytical Approach: Standalone:** CARE has analysed the credit profile of Bhageria industries Limited on a standalone basis as BIL does not have any subsidiaries or associates.

**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 Curing Period

**About the Company**
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) | FY19 (A) | FY20 (A) | Q1FY20 (UA) |
|---|---|---|---|
| Total operating income | 466.68 | 418.95 | 52.89 |
| PBILDT | 129.22 | 102.85 | 13.34 |
| PAT | 71.51 | 65.81 | 5.71 |
| Overall gearing (times) | 0.07 | 0.05 | NA |
| Interest coverage (times) | 33.96 | 61.36 | 34.25 |

*A: Audited; UA: Unaudited, as published on stock exchanges*

**Status of non-cooperation with previous CRA: None**

**Any other information:** NA

**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 |
|---|---|---|---|---|---|
| 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 |

**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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Term Loan-Long Term | LT | - | - | - | 1)Withdrawn (23-Aug-19) | 1)CARE A-; Stable (20-Aug-18) | 1)CARE BBB+; Stable (23-Feb-18) |
| 2. | Fund-based - LT/ ST-CC/PC/Bill Discounting | LT/ST | 75.00 | CARE A; Stable / CARE A1 | - | 1)CARE A; Stable / CARE A1 (23-Aug-19) | 1)CARE A2+ (20-Aug-18) | 1)CARE A2 (23-Feb-18) |
| 3. | Fund-based - LT/ ST-Working Capital Limits | LT/ST | 1.00 | CARE A; Stable / CARE A1 | - | 1)CARE A; Stable / CARE A1 (23-Aug-19) | 1)CARE A2+ (20-Aug-18) | 1)CARE A2 (23-Feb-18) |
| 4. | Term Loan-Long Term | LT | - | - | - | 1)Withdrawn (23-Aug-19) | 1)CARE A-; Stable (20-Aug-18) | 1)CARE BBB+; Stable (23-Feb-18) |

**Annexure 3: Complexity level of various instruments rated for this company**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Fund-based - LT/ ST-CC/PC/Bill Discounting | Simple |
| 2. | Fund-based - LT/ ST-Working Capital Limits | Simple |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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**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.



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