

Bhagyanagar India Limited

October 23, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bank Facilities	63.00 (enhanced from 61.00)	CARE BBB; Negative (Triple B; Outlook: Negative)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Short-term Bank Facilities	10.00	CARE A3+ (A Three Plus)	Assigned
Long/Short-term Bank Facilities	15.00 (reduced from 27.00)	CARE BBB; Negative/CARE A3+ (Triple B; Outlook: Negative/A Three Plus)	Revised from CARE BBB+; Stable/CARE A2 (Triple B Plus; Outlook: Stable/A Two)
Total	88.00 (Rupees Eighty Eight crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Bhagyanagar India Limited (BIL) is primarily on account of significant increase in debt levels of the company resulting in deterioration in leverage and debt coverage indicators and stretched liquidity position. The rating revision also takes into account decline in cash accruals during FY19 (FY refers to the period from April 01 to March 31) and subdued financial performance of the company during Q1FY20. The ratings however derive strength from the established track record of the group for over three decades, experienced promoters and qualified management team, established player in copper industry having long standing relationship with reputed clients and satisfactory operating cycle. The ratings also consider increase in total operating income during FY19, successful commencement of operations at subsidiary level and complete repayment of term debt at standalone level. The ratings, however, are constrained by susceptibility of margins to volatility in raw material prices, foreign exchange fluctuation risk, presence in highly competitive nature of industry and subdued industry.

Rating Sensitivities

Positive Factors

- Increase in profits and accruals.
- Improvement in profitability margins.

Negative Factors

- Deterioration in leverage and other debt coverage indicators.

Outlook: Negative

The 'Negative' outlook on rating reflects expected decline in total operating income, profitability levels and cash accruals during FY20 owing to the subdued industry scenario which if continued would result in further deterioration in the debt coverage indicators of the company.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

Bhagyanagar India Limited was founded by Mr. G M Surana in 1985. Mr. G M Surana is the Chairman and head the Surana Group of companies based out of Hyderabad. The Managing Director of BIL; Mr. Devendra Surana (younger son of Mr. G M Surana) is a Mechanical Engineer from Osmania University and holds a Post Graduate Diploma in Management from IIM, Bangalore. He has been in the field of Ferrous & Non Ferrous & Telecom Industry for the more than a decade. He is currently a member of National Executive Committee for Federation of Indian Chambers of Commerce and Industry (FICCI) and Chairman of the Telangana State Council of FICCI. The promoters are assisted by a team of qualified professionals.

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

Established track record of Hyderabad based Surana Group

Founded in 1978, the Surana Group is a Hyderabad based well diversified business conglomerate with focus on areas of Telecommunications, Copper rods, Copper Pipes, Copper Sheets, Copper Foils and Power Cables, Wind Power, Solar Power generation. The group consists of around 40 companies with overall experience of over four decades.

Established player in copper industry with satisfactory operations

Being one of the oldest copper product manufacturing companies with over three decades of experience, BIL has been able to establish itself as one of the leading players in the copper products. Its product portfolio includes copper bus-bars, flats, paper insulated copper conductors, auto commutators, copper nuggets, copper foils, copper tubes, copper wires and rods among others. The company also manufactures heating element/thermostat/immersion heaters, solar flat plate collectors, solar fins, submersible wires, field coils and armature pins etc.

The company has been able to penetrate the market significantly post implementation of GST as small players have been eradicated and also players who were earlier enjoying tax benefits in areas like Baddi, Silvasa have come on a common footing thereby resulting in increased production and sales volume (y-o-y increase of ~12%) during FY19. Yield of the company improved to 77% for FY19 as against 68% for FY18. Further, BCPL recently commenced operations from March 1, 2019, however, the company did not undertake any commercial sales during FY19 and undertook only job work for BIL to the tune of Rs. 0.32 crore.

Increase in total operating income albeit decline in profits and accruals during FY19

The total operating income (TOI) of the company at a consolidated level improved by 26.90% from Rs.449.13 crore during FY18 to Rs.569.95 crore during FY19 on account on increase in the demand and sales realization during the period. The PBILDT margin of the company has improved marginally by ~18bps from 3.32% during FY18 to 3.49% during FY19 on account of economies of scale. The PAT margin of the company, however, declined by ~172bps from 2.83% during FY18 to 1.11% during FY19 on account of increase in the interest expenses and lower non-operating income. The interest expense doubled from Rs.3.82 crore during FY18 to Rs.7.66 crore during FY19 owing to increased working capital borrowings as well as forex fluctuation on External Commercial Borrowings.

The net profit of the company halved during FY19 as against FY18 and stood at Rs.6.34 crore (Rs. 12.71 crore for FY18). Gross cash accruals of the company also declined during FY19 to Rs.10.53 crore vis-à-vis Rs.16.75 crore for FY18.

Further, for Q1FY20, the company recorded TOI of Rs.127.84 crore with PAT of Rs.0.85 crore on a consol. basis.

At standalone level, BIL recorded TOI of Rs.569.94 crore with PAT of Rs.6.50 crore during FY19. PBILDT margin of the company was 3.48% for FY19. Further, for Q1FY20, the company recorded TOI of Rs.127.84 crore with PAT of Rs.0.85 crore on a standalone basis.

Established relationship with reputed clientele

Over the years, BIL has established good relationship with its customers for supply of its copper products. BIL caters to a broad spectrum of OEM customers in India with whom the company has developed long term business relationship catering to electrical and automobile sectors. The company bags repeat orders from its clientele. Few of the customers include Finecab Wires and Cables Private Limited, HBL Power System Limited, Lucas TVS Limited, Toshiba Transmission and Distribution Limited, Racold Thermo Private Limited, Amara Raja Power Systems Limited and V-Guard Industries Limited.

Successful commencement of operations at subsidiary level

In February 2018, BIL acquired a company, Bhagyanagar Copper Private Limited (erstwhile Aanwik Mercantile Private Limited) having 65 acres of land in Shabaspalli, Medak District, Telangana. The company has successfully completed the capex at BCPL and achieved Commercial Operation Date (COD) on March 01, 2019.

As against earlier envisaged project cost of Rs.40.00 crore, the company now plans to incur around Rs. 44-45 crore on the project with certain additional equipment being set up. The company plans to incur around Rs.44-45 crore on the proposed project, to be funded through term loan of Rs.15 crore and balance from BIL (unsecured loans and investment). As per CA certificate dated March 25, 2019, the cost incurred on the project stood at Rs.32.88 crore. BCPL has successfully commenced commercial sales from the end of September 2019 onwards with initial installed capacity of 4000 MTPA.

Satisfactory operating cycle

The operating cycle of the company stood comfortable at 53 days during FY19, although deteriorated from 40 days during FY18. The deterioration of working capital cycle of the company during FY19 is primarily on account of elongation of average inventory period (from 37 days during FY18 to 44 days during FY19) and shorter credit period availed by BIL (declined from 21 days during FY18 to 11 days during FY19).

Key Rating Weaknesses**Significant increase in debt levels resulting in deterioration in coverage and leverage indicators**

The debt levels of the company increased significantly and stood at Rs.103.50 crore as on March 31, 2019 (Consol.) as against Rs.27.56 crore as on March 31, 2018. Increase in debt levels was primarily on account of increased in working capital borrowings which was utilised to fund inventory. The overall gearing of the company deteriorated from 0.39x as on March 31, 2018 to 0.93x as on March 31, 2019. However, the company has completely repaid its term debt obligation at the standalone level and as on Oct. 16, 2019 the company has no long term debt.

Total debt to GCA of the company stood high at 10.78x during FY19, having deteriorated from 2.72x during FY18 on account of higher debt levels during the period. The other debt coverage indicator, PBILDT interest coverage ratio stood comfortable at 2.60x during FY19, although deteriorated marginally from 3.90x during FY18 on account of higher interest expenses during the year.

Volatility in copper prices

Prices of copper are usually affected by demand – supply dynamics and macroeconomic factors. LME daily publishes inventory levels of copper which also has a direct impact on the prices of copper and on the stock prices of copper producing companies. Global copper prices rose by 25% during FY18. The tariff war between the US and China, appreciation of the US dollar against major currencies and slowdown in the global economy led to copper prices being subdued throughout FY19. The continued tariff war and rising tension between US and China has further continued in the current financial year i.e. FY20 which has led to copper prices to further decline. Further, shutdown of the Tuticorin smelter also impacted prices and resulted in the fall of revenues of copper companies during FY19 on a y-o-y basis. Even in the current financial year, revenues have dropped by 17.3% and copper prices have fallen by 11.1% during Q1FY20.

The company is however hedged to an extent against the price risk to an extent as almost 70% to 80% of the inventory is always hedged on the MCX thereby insulating it from any volatility risk.

Foreign exchange fluctuation risk

BIL is exposed to forex fluctuation risk on account of import of raw materials as well as ECB. In FY19, imports formed around 44.30% of the total raw material cost (34.15% during FY18) whereas export sales constituted around only 0.30% of gross sales. This makes BIL's profitability susceptible to risk associated with fluctuations in foreign exchange rate. The company generally follows short term hedging mechanism up to an extent of one quarter payment based on the currency fluctuation, but, there is no long term hedging mechanism in place. In FY19, BIL incurred forex loss of Rs.1.94 crore (as against Rs.0.02 crore in FY18). However, comfort is derived from almost 70% to 80% of the inventory is always hedged on the MCX thereby insulating it from any volatility risk.

Subdued industry outlook coupled with competitive nature of industry

Major customers of BIL are ancillary units/manufacturers of electrical equipment such as transformers, switch gears, cable and conductor manufacturers, automobiles etc. Demand of BIL's products is linked to the investment scenario in automobile, power and new infrastructure development sectors.

Demand for the domestic copper market is dependent largely on the electrical & telecommunications (56%), building & construction (8%), automobiles (11%) and the consumer durables segments (8%). We estimate domestic refined copper demand to increase by 7-8% (including consumption of scrap) by the end of FY20. The growing demand from the power sector, the government's thrust on renewable energy and increasing demand from the households for consumer durables will add onto the demand for copper in India. Manufacturing of hybrid and electric cars will also augment the consumption of copper as EVs use 4 times more copper than traditional internal combustion engines.

Due to the increase in demand, India will continue being a net importer of refined copper during FY20 as well, unless the Madurai court passes the judgement for the remission of the Tuticorin smelter. Global copper prices will be suppressed.

We also expect Treatment Charges and Refinery Charges (TC/RC) margins to remain under pressure owing to the supply side disruptions from the major mining areas (Chile mining strike). This could act as a double whammy for copper manufacturers given global copper prices are already low and low TC/RC margins will affect smelters earning capacity potentially affecting the overall financials of the copper industry.

Furthermore, the copper industry is highly fragmented with presence of both organized and unorganized players in the downstream segment providing similar products/services. Hence, the bargaining power of BIL remains low due to competitive nature of the industry.

Liquidity: Stretched

The company's liquidity position is stretched marked by high repayment obligations during FY20, significant reliance on bank borrowings and modest cash balance. Although, comfort is derived from the company having repaid significant portion of the debt repayment obligations due in FY20, the repayment were primarily met through working capital borrowings of the

company. The company had cash and bank balance of Rs.0.60 crore as on March 31, 2019. (Consol.). Further, average of maximum working capital utilization for the last 12 months ended July 31, 2019 was high at 93%.

Analytical approach: Consolidated

CARE has analyzed the consolidated financials of Bhagyanagar India Limited and its only subsidiary, Bhagyanagar Copper Private Limited while arriving at the ratings of Bhagyanagar India Limited as the companies have both operational as well as financial linkages.

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[CARE's methodology for Manufacturing Companies](#)

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

[Rating Methodology: Factoring Linkages in Ratings](#)

About the Company

Bhagyanagar India Limited (BIL); incorporated in 1985 is the flagship company of the Hyderabad based Surana Group promoted by Mr. G M Surana and is listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The company is primarily engaged in the business of manufacturing of wide range of copper products. In addition to this, BIL has also forayed into wind power generation business in 2007 and has setup seven wind turbines with total capacity of 9 MW. This apart, the company was also engaged in solar power generation and real estate business which was demerged in FY17. In the copper division, BIL manufactures copper rods, copper foils, copper pipes, copper sheets, annealed copper strips, paper insulated copper conductors, insulated copper coils (Field Coils) etc. The copper division mainly caters to the needs of various Original Equipment Manufacturers (OEM's) and auto components industry. The products manufactured by BIL find applications in telecommunications, power & distribution, transformers, heat exchangers, switchgear & low range transformers, solar panels and auto ancillaries.

Bhagyanagar Copper Private Limited; BCPL (erstwhile Aanvik Mercantile Private Limited) was incorporated in April 2008. The company's 100% holding was acquired by Bhagyanagar India Limited (BIL) in February 2018 thereby making BCPL a wholly owned subsidiary of BIL

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. Crore) (Consolidated)	FY18 (A)	FY19 (A)
Total operating income	449.13	569.95
PBILDT	14.89	19.91
PAT	12.71	6.34
Overall gearing (times)	0.39	0.93
Interest coverage (times)	3.90	2.60

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
Fund-based - LT-Term Loan	-	-	October 15, 2019	0.01	CARE BBB; Negative
Fund-based - LT-Cash Credit	-	-	-	50.00	CARE BBB; Negative
Fund-based - LT-Stand by Limits	-	-	-	6.00	CARE BBB; Negative
Non-fund-based - LT/ ST-Letter of credit	-	-	-	10.00	CARE BBB; Negative / CARE A3+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	5.00	CARE BBB; Negative / CARE A3+
Fund-based - LT-Line Of Credit	-	-	-	6.99	CARE BBB; Negative
Non-fund-based - ST-Working Capital Limits	-	-	-	10.00	CARE A3+

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.	Fund-based - LT-Term Loan	LT	0.01	CARE BBB; Negative	-	1)CARE BBB+; Stable (12-Jul-18)	-	-
2.	Fund-based - LT-Cash Credit	LT	50.00	CARE BBB; Negative	-	1)CARE BBB+; Stable (12-Jul-18)	-	-
3.	Fund-based - LT-Stand by Limits	LT	6.00	CARE BBB; Negative	-	1)CARE BBB+; Stable (12-Jul-18)	-	-
4.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	10.00	CARE BBB; Negative / CARE A3+	-	1)CARE BBB+; Stable / CARE A2 (12-Jul-18)	-	-
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	5.00	CARE BBB; Negative / CARE A3+	-	1)CARE BBB+; Stable / CARE A2 (12-Jul-18)	-	-
6.	Fund-based - LT-Line Of Credit	LT	6.99	CARE BBB; Negative	-	-	-	-
7.	Non-fund-based - ST-Working Capital Limits	ST	10.00	CARE A3+	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated facilities: NA

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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