

Bhagyanagar India Ltd

July 12, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long-term bank facilities	61.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned
Long-term/Short-term bank facilities	27.00	CARE BBB+; Stable/CARE A2 (Triple B Plus; Outlook: Stable/A Two)	Assigned
Total	88.00 (Rupees Eighty Eight crore only)		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Bhagyanagar India Limited (BIL) derives 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, increasing trend in total operating income (TOI) during FY16-FY18 (FY refers to the period from April 01 to March 31), comfortable overall gearing and debt coverage indicators, satisfactory operating cycle with low utilisation working capital limits and moderate industry outlook. The ratings, however, are constrained by volatile operating margins that are susceptible to volatility in raw material prices with decline during FY18, foreign exchange fluctuation risk and presence in highly competitive nature of industry. The ability of the company to improve its profitability margins and efficiently managing forex risk remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and qualified management team: BIL was founded by current Chairman; Mr. G M Surana in 1985 also heading the Surana Group of companies based out of Hyderabad. He is a graduate in Commerce and Law from Osmania University having about two decades of experience in Ferrous and Non-Ferrous metal industry. The Managing Director of BIL; Mr. Devendra 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. The promoters are assisted by a team of qualified professionals.

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 having long standing relationship with reputed clients: BIL has been able to establish itself as one of the leading players in the copper products. The company manufactures a wide range of copper products including value added products. BIL caters to a broad spectrum of Original Equipment Manufacturer (OEM) customers in India with whom the company has developed long term business relationship catering to electrical and automobile sectors. Few of the customers include Finecab Wires and Cables Private Limited, HBL Power System Limited, Lucas TVS Limited, Toshiba Transmission and Distribution Limited, Amara Raja Power Systems Limited, V-Guard Industries Limited.

Increasing trend in total operating income during last three years: Total operating income (TOI) of the company has been increasing over last three years. TOI of the company increased at a CAGR of 24.40% for the period FY16-FY18 with significant y-o-y growth of 50.20% in FY18 over FY17 (from Rs.299.03 crore in FY17 to Rs.499.13 crore in FY18).

Comfortable overall gearing and debt coverage indicators: Overall gearing of the company as on March 31, 2018 stood at 0.39x as against 0.77x as on March 31, 2017 led by increase in networth due to accretion of profits. Other debt coverage indicators; interest coverage ratio and total debt/GCA also improved in FY18 to 4.51x and 2.72x respectively as against 2.70x and 9.38x in FY17.

Further, total free cash and bank balances as on March 31, 2018 increased significantly to Rs.11.30 crore from Rs.0.79 crore as on March 31, 2017.

Satisfactory operating cycle: The operating cycle of the company is satisfactory at 39 days in FY18 (as against 58 days in FY17). Majority of products are supplied to Original Equipment Manufacturers (OEM's) belonging to organised sector where in the credit period is on a higher side. BIL maintains inventory of about 2-3 months to meet the demand requirement from the OEM's. Collection period over the last three years was comfortable at around 1 month. The same stood at 23 days in FY18 (improved from 34 days in FY17). Further, average working capital utilisation for the last 12 months ended April 2018 is minimal at 7.54%.

Moderate industry outlook: 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 power sector and new infrastructure development.

Key Rating Weaknesses

Volatile operating margins due to volatility in raw material prices: The copper prices have been volatile thereby impacting the profitability margins of the company. In FY17, PBILDT margin increased by 139 bps (from 3.98% in FY16 to 5.37% in FY17) on account of better absorption of overhead costs and higher realisations vis-à-vis decline in copper prices. However, during FY18, PBILDT margin declined by 154 bps to 3.83% on account of increase in copper prices coupled with implementation of GST wherein the company had to reduce prices of its products to acquire new clients in North which resulted in reduction in in FY18.

Foreign exchange fluctuation risk: BIL is exposed to forex fluctuation risk on account of import of raw materials as well as export sales and External Commercial Borrowings. In FY18, imports formed around 34.83% of the total raw material cost whereas export sales constituted around only 0.18% of gross sales. This makes BIL's profitability susceptible to risk associated with fluctuations in foreign exchange rate. Further, BIL is also exposed to foreign exchange fluctuation risk associated with unhedged portion of ECBs.

Highly competitive nature of industry: 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

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

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

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. On January 23, 2017, a Scheme of Arrangement was approved by High Courts of Telangana and Andhra Pradesh between BIL (demerged company) and Surana Telecom and Power Limited (1st resulting company) and Bhagyanagar Properties Limited (2nd resulting company) for demerger of Solar division and Real Estate & Infrastructure division of the company respectively w.e.f. April 01, 2016 (appointed date for demerger).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	299.03	449.13
PBILDT	16.04	17.19
PAT	4.85	12.86
Overall gearing (times)	0.77	0.39
Interest coverage (times)	2.69	4.51

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
Fund-based - LT-Term Loan	-	-	October 2019	26.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	30.00	CARE BBB+; Stable
Fund-based - LT-Line Of Credit	-	-	-	5.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Letter of credit	-	-	-	22.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	5.00	CARE BBB+; Stable / CARE A2

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	26.00	CARE BBB+; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB+; Stable	-	-	-	-
3.	Fund-based - LT-Line Of Credit	LT	5.00	CARE BBB+; Stable	-	-	-	-
4.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	22.00	CARE BBB+; Stable / CARE A2	-	-	-	-
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	5.00	CARE BBB+; Stable / CARE A2	-	-	-	-

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