

## Bhaskar Industries Private Limited

January 02, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term - Term Loan	80.84 (reduced from 89.22)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	<b>Reaffirmed</b>
Long term fund based – Cash Credit	118.00 (reduced from 178.00)		
Short term non-fund based – LC/BG	20.00 (reduced from 26.00)	CARE A3+ (A Three Plus)	
<b>Total Facilities</b>	<b>218.84</b> <b>(Rs. Two hundred eighteen crore and eighty four lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Bhaskar Industries Pvt. Ltd (BIPL) derive strength from strong parentage of Dainik Bhaskar (DB) group, experienced management, established position of BIPL in the denim industry, and its integrated operations. The ratings however continue to be constrained by low profitability, moderate financial risk profile and working capital intensive operations. Furthermore, the ratings are also constrained by the susceptibility of the company's profitability to volatility in the prices of raw material and intense competition in the sector.

### Rating Sensitivities

#### Positive Factors

- Improvement in operating margins to 8-10% on a sustained basis
- Improvement in RoCE on a sustained basis to 12+%
- Reduction in gross working capital cycle days to below 140 days resulting in lower working capital requirements and consequently reduction in working capital utilisation

#### Negative Factors

- Deterioration of capital structure on account of debt funded capex, high working capital requirements with overall gearing exceeding 1.50x
- Any support to group companies

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Strong & resourceful promoters:** Bhaskar Industries Pvt Ltd (BIPL) is a part of Dainik Bhaskar (DB) group promoted by the Agarwal family and is well known for its association with print media through D B Corp Ltd (DBCL, rated CARE AAA; Stable/A1+) which is one of the leading print media companies in India. The promoters of DBCL have been in the print business for almost five decades, since the first edition of DB was launched in 1958. DB group has turned itself into a diversified conglomerate with interests in various businesses like textiles, FM radio and real estate development apart from its traditional business of being a newspaper publication house. DBCL is one of the leading print media group amongst national dailies in terms of readership with a total readership of ~66 million readers across its various publications. DBCL's flagship newspaper DB is the most widely read Hindi newspaper in India.

**Stable business profile:** BIPL has integrated denim manufacturing facilities ranging from spinning to yarn dying to weaving and finishing. BIPL is primarily engaged in the manufacturing of denim fabric; it also manufactures cotton yarn. BIPL is one of the larger denim manufacturing units in India on the basis of installed capacity. As on March 31, 2019; BIPL had denim manufacturing capacity of about 35.2 mmpa (million metres per annum) and spinning capacity of 12,300 mtpa (metric tons per annum). BIPL sells its products both domestically as well as exports it across the globe with top three destinations contributing ~92% of export sales.

**Improvement in capital structure:** BIPL's financial risk profile is characterised by comfortable capital structure and working capital intensive nature of operations. The company's capital structure improved considerably to 0.60x as on March 31, 2019 vis-à-vis 1.52x as on March 31, 2018, mainly due to repayment of debt raised for group companies. The repayments towards the debt raised for group companies have been made with the funds arranged by the management and redemption of investments.

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

### Key Rating Weaknesses

**Deterioration in operational performance:** During FY19, sales declined by 14.39% to Rs. 755 crore on account of company restricting its low-margin trading activities. However, during the same period, company reported a growth of 14% in its manufacturing sales on account of increase in yarn and denim turnover supported by improvement in realisations. BIPL's operating margins declined from 6.44% in FY18 to 4.70% in FY19 on account of company's inability to pass on the increase in cost of raw materials, rise in price of cotton and increase in job work charges to the customers. Consequently, on account decline in lower operating profits, the company's interest coverage ratio deteriorated to 1.19x as against 1.34x despite fall in interest costs by 29%.

**Working capital intensive nature of operations:** The company procures cotton/cotton yarn from domestic players mainly against cash basis and also against credit. Gross working capital cycle stood at ~6 months. Average collection period stood at 3-3.5 months. Further, average inventory period stood at ~2.5 months as the company being an integrated player stocks everything from cotton to yarn to fabrics. This results in working capital intensive nature of operations which is reflected in high utilisation of working capital limits. Average working capital utilisation stood at 90% during the past 12 months ended Nov 2019.

**Project risk:** The company is undertaking a modernisation cum expansion project to increase the weaving width from 190cm to around 220-230 cm. The project is slated to be completed in two phases. The overall cost of the project is estimated to be Rs. 110 crore funded through debt of Rs. 80 crore and balance through promoters' contribution. The company is yet to achieve financial closure for the project.

**Volatility in raw material prices:** Major raw materials used by BIPL include cotton/cotton yarn. Cotton prices are volatile in nature driven by various factors like, area under cultivation, yield for the year, government regulation and pricing, etc. Hence profitability of the company is highly susceptible to raw material price fluctuation which has exhibited considerable volatility in the past. However, BIPL mainly follows order based production policy wherein around 50-60% of the goods are produced against orders which minimizes inventory fluctuation risk.

**Cyclical, fragmented and competitive nature of industry:** BIPL has high product concentration risk with denim contributing around 76% to its sales (incl. captive sales) in FY19. BIPL's high dependence on denim makes it susceptible to risk associated with a downturn in the denim industry.

The denim industry is inherently cyclical in nature. The demand is directly linked to the consumption trends and disposable income levels and the general economic outlook of the country. Further, it remains vulnerable to various factors such as fluctuations in prices of cotton, crude oil, mobilisation of adequate workforce and changes in government policies for overall development of the textile industry. The textile industry, as a whole, is also highly competitive and fragmented in nature with a large number of players operating in the organised and unorganised sector.

### Liquidity Analysis: Stretched

Liquidity is marked by tightly matched accruals to debt service obligations, highly utilised bank limits (average working utilisation of last 12 months ended Nov-19 is 90%) and modest cash balance of Rs. 7.37 crore (incl. margin money). The company towards H2FY20 has debt repayment obligation of Rs. 0.84 crore.

### Analytical Approach

Standalone

### Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Rating Methodology - Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

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

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

### About the Company

Incorporated in 1985, Bhaskar Industries Private Ltd (BIPL) is a part of the Dainik Bhaskar (DB) group promoted by the Agarwal family which is well known for its association with print media through D B Corp Ltd (DBCL, rated CARE AAA; Stable/A1+) one of the leading print media companies in India.

BIPL has integrated denim manufacturing facilities ranging from spinning to yarn dyeing to weaving and finishing. BIPL is primarily engaged in the manufacturing of denim fabric; it also manufactures cotton yarn. BIPL is one of the larger denim

manufacturing units in India on the basis of installed capacity. As on March 31, 2019; BIPL had denim manufacturing capacity of about 35.2 mmpa (million metres per annum) and spinning capacity of 12,300 mtpa (metric tons per annum).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	895.84	768.37
PBILDT	57.66	36.14
PAT	1.70	1.62
Overall gearing (times)	1.52	0.60
Interest coverage (times)	1.34	1.19

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
Non-fund-based - ST-BG/LC	-	-	-	20.00	CARE A3+
Fund-based - LT-Cash Credit	-	-	-	118.00	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	Mar 2020	0.84	CARE BBB+; Stable
Proposed Term Loan	-	-	-	80.00	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 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.	Non-fund-based - ST-BG/LC	ST	20.00	CARE A3+	-	1)CARE A3+ (10-Dec-18)	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (14-Oct-16)
2.	Fund-based - LT-Cash Credit	LT	118.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (10-Dec-18)	1)CARE BBB+; Stable (28-Dec-17)	1)CARE BBB+ (14-Oct-16)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (10-Dec-18)	1)CARE BBB+; Stable (28-Dec-17)	1)CARE BBB+ (14-Oct-16)
4.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (10-Dec-18)	1)CARE BBB+; Stable (28-Dec-17)	1)CARE BBB+ (14-Oct-16)
5.	Fund-based - LT-Term Loan	LT	80.84	CARE BBB+; Stable	-	1)CARE BBB+; Stable (10-Dec-18)	1)CARE BBB+; Stable (28-Dec-17)	1)CARE BBB+ (14-Oct-16)
6.	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (28-Dec-17)	1)CARE BBB+ (14-Oct-16)
7.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (28-Dec-17)	1)CARE A3+ (14-Oct-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](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.

## Contact us

### Media Contact

Mradul Mishra  
Contact no.: 022-68374424  
Email ID: [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Mr. Pulkit Agrawal  
Contact no.: 022-67543505  
Email ID: [pulkit.agrawal@careratings.com](mailto:pulkit.agrawal@careratings.com)

### Relationship Contact

Name: Ankur Sachdeva  
Contact no.: 022-67543495  
Email ID: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@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 the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. 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. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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