

## Bhaskar Industries Private Limited

December 10, 2018

### Ratings

Facilities/Instruments*	Volume (Rs. Cr)	Rating	Remark
Long-term Facilities – Term Loan	89.22	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long-term Facilities-Fund Based – Cash Credit	178.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short-term-Bank Facilities – Non-Fund Based	26.00	CARE A3+ (A Three Plus)	Reaffirmed
Long-term Facilities – Term Loan	-	-	Withdrawn
Long-term Facilities – Term Loan	-	-	Withdrawn
<b>Total</b>	<b>293.22</b> <b>(Rs. Two hundred ninety three crore and twenty two lakhs only)</b>		

### 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.

Ability to improve profitability margins as well as capital structure, manage volatility associated with cotton prices and the timely receipt of funds from the group entities as envisaged are key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Strong & resourceful promoters**

BIPL is promoted by promoters of DBCL and other group companies. The group has turned into a diversified conglomerate, with interests in various businesses like textiles, solvent extraction, vegetable oil refining, TV media, FM radio and real estate development from its traditional business of being a leading newspaper publication house.

DBCL is one of the leading print media group amongst national dailies in terms of readership with a total readership of ~59 million readers across its various publications as on March 31, 2018. DBCL's flagship newspaper DB is the most widely read Hindi newspaper in India.

##### **Strong business profile along with improvement in operating margins**

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, 2018; BIPL had denim manufacturing capacity of about 35.2 mmpa (million metres per annum) and spinning capacity of 12300 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.

There is a marginal decline in revenue in FY18 as compared to FY17 mainly due to decline in trading sales. BIPL also engages in trading of fabric and income from same constituted ~41% of net sales in FY18 vis-à-vis 42% in FY17. During FY18, sales from denim fabric contributed 93% to gross sales (vis-à-vis 91% in FY17) followed by yarn at 7% (vis-à-vis 9% in FY17). Export sales remained at ~12% of gross sales during FY18 as compared to 10% in FY17.

PBILD margin improved to 6.44% in FY18 vis-à-vis 5.21% in FY17 primarily on account of higher capacity utilisation, lower raw material cost and decrease in low margin trading activities.

#### Key Rating Weaknesses

##### **Moderate financial risk profile**

BIPL's financial risk profile is characterised by moderate capital structure and working capital intensive nature of operations. Overall gearing marginally deteriorated to 1.52x as on March 31, 2018 vis-à-vis 1.49x as on March 31, 2017, mainly due to increase in working capital loans.

As on March 31, 2018, total long term loans outstanding were ~Rs.230 crore, of which only ~3% of the loan was used for internal purpose and balance ~97% was availed to infuse funds in group entities. Majority of these funds were deployed in Writers and Publishers Pvt. Ltd. (WPPL) in the form of optionally fully convertible debenture (OFCD). During H1FY19, BIPL

has repaid debt of around Rs.225.52 crore, of which Rs. 223.10 crore pertains to debt raised for group companies. As per the CA certificate received, the repayments for debt raised for group companies has been made from the funds arranged from other group companies and redemption of investments in OCD's of WPPL.

**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 about 3-3.5 months. Average collection period stood at about 2.5 months. Further, average inventory period stood at about 1.5 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. Working capital limits continued to remain around 91% utilised during the past 12 months ended September 2018.

**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.

**Project risk**

The company is undertaking a modernisation cum expansion project to increase the weaving width from 190cm to around 220-230 cm. Post modernisation, the denim capacity shall increase from 35.2 mmpa to 40.0 mmpa while yarn manufacturing capacity to will be increased to 13,704 mtpa (as the spinning length will go up).

The project is expected to get completed in phase wise manner. The overall cost of the project is estimated to be Rs.109.00 crore funded through debt of Rs.85.00 crore and balance through internal accrual. Financial closure for the project is yet to be achieved.

**Cyclical, fragmented and competitive nature of industry**

BIPL has high product concentration risk with denim contributing around 93% to its net sales in FY18. BIPL's high dependence on denim makes it susceptible to risk associated with a downturn in the denim industry.

**Liquidity**

The company procures cotton from domestic players mainly against credit period of 10-15 days while it purchases cotton yarn again credit period of around 30 days. BIPL sells its goods in domestic markets either to branded customers on COD basis/ 60 days LC or through distributors for a credit period of around 45-60 days. Distributors account for around 40% of the domestic sales. The company provides 120 days LC backed credit to overseas customers. Gross working capital cycle increased a little and stood at about 3.5 month. Average collection period remained around 3.5 months. Further, average inventory period stood at about 1.5 months as the company being an integrated player stocks everything from cotton to yarn to fabrics. This reflects working capital intensive nature of operations resulting in dependence on the working capital borrowings. As a result working capital limits continued to remain around 91% utilised during the past 12 months ended September 2018.

**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: Factoring Linkages in Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

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

[Rating Methodology - Wholesale Trading](#)

**About the Company**

Incorporated in 1985, BIPL is a part of the 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+) which is one of the leading print media companies in India.

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manufacturing companies in India on the basis of installed capacity. As on March 31, 2018; BIPL had denim manufacturing capacity of about 35.2 mmpa (million metres per annum) and spinning capacity of 12300 mtpa (metric tons per annum).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	952.93	895.84
PBILDT	49.61	57.66
PAT	-16.16	1.70
Overall gearing (times)	1.49	1.52
Interest coverage (times)	0.93	1.34

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](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.

**Analyst Contact:**

Name: Pulkit Agarwal

Tel: 022 6754 3505

Email: [pulkit.agarwal@careratings.com](mailto:pulkit.agarwal@careratings.com)

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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
Non-fund-based - ST-BG/LC	-	-	-	26.00	CARE A3+
Fund-based - LT-Cash Credit	-	-	-	178.00	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	March 2020	89.22	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 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.	Non-fund-based - ST-BG/LC	ST	26.00	CARE A3+	-	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (14-Oct-16)	1)CARE A3+ (07-Jan-16) 2)CARE A3+ (SO) (07-Apr-15)
2.	Fund-based - LT-Cash Credit	LT	178.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (28-Dec-17)	1)CARE BBB+ (14-Oct-16)	1)CARE BBB+ (07-Jan-16) 2)CARE BBB+ (SO) (07-Apr-15)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB+; Stable (28-Dec-17)	1)CARE BBB+ (14-Oct-16)	1)CARE BBB+ (07-Jan-16) 2)CARE BBB+ (SO) (07-Apr-15)
4.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB+; Stable (28-Dec-17)	1)CARE BBB+ (14-Oct-16)	1)CARE BBB+ (07-Jan-16) 2)CARE BBB+ (07-Apr-15)
5.	Fund-based - LT-Term Loan	LT	89.22	CARE BBB+; Stable	-	1)CARE BBB+; Stable (28-Dec-17)	1)CARE BBB+ (14-Oct-16)	1)CARE BBB+ (07-Jan-16) 2)CARE BBB+ (07-Apr-15)
6.	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (28-Dec-17)	1)CARE BBB+ (14-Oct-16)	1)CARE BBB+ (07-Jan-16) 2)CARE BBB+ (07-Apr-15)
7.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)Withdrawn (28-Dec-17)	1)CARE A3+ (14-Oct-16)	1)CARE A3+ (07-Jan-16) 2)CARE A3+ (07-Apr-15)

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
 Cell: + 91 98190 09839  
 E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Mr. Ankur Sachdeva**  
 Cell: + 91 98196 98985  
 E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Ms. Rashmi Narvankar**  
 Cell: + 91 99675 70636  
 E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Saikat Roy**  
 Cell: + 91 98209 98779  
 E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)

**AHMEDABAD**

**Mr. Deepak Prajapati**  
 32, Titanium, Prahaladnagar Corporate Road,  
 Satellite, Ahmedabad - 380 015  
 Cell: +91-9099028864  
 Tel: +91-79-4026 5656  
 E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**JAIPUR**

**Mr. Nikhil Soni**  
 304, Pashupati Akshat Heights, Plot No. D-91,  
 Madho Singh Road, Near Collectorate Circle,  
 Bani Park, Jaipur - 302 016.  
 Cell: +91 – 95490 33222  
 Tel: +91-141-402 0213 / 14  
 E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
 No. 30, M.G. Road, Bangalore - 560 001.  
 Cell: +91 98407 54521  
 Tel: +91-80-4115 0445, 4165 4529  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
 10A, Shakespeare Sarani, Kolkata - 700 071.  
 Cell: +91-98319 67110  
 Tel: +91-33- 4018 1600  
 E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
 SCF No. 54-55,  
 First Floor, Phase 11,  
 Sector 65, Mohali - 160062  
 Chandigarh  
 Cell: +91 851111-53511/99251-42264  
 Tel: +91- 0172-490-4000/01  
 Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
 13th Floor, E-1 Block, Videocon Tower,  
 Jhandewalan Extension, New Delhi - 110 055.  
 Cell: +91-98117 45677  
 Tel: +91-11-4533 3200  
 E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
 Unit No. O-509/C, Spencer Plaza, 5th Floor,  
 No. 769, Anna Salai, Chennai - 600 002.  
 Cell: +91 98407 54521  
 Tel: +91-44-2849 7812 / 0811  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
 9th Floor, Pride Kumar Senate,  
 Plot No. 970, Bhamburda, Senapati Bapat Road,  
 Shivaji Nagar, Pune - 411 015.  
 Cell: +91-98361 07331  
 Tel: +91-20- 4000 9000  
 E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
 T-3, 3rd Floor, Manchester Square  
 Puliakulam Road, Coimbatore - 641 037.  
 Tel: +91-422-4332399 / 4502399  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

CIN - L67190MH1993PLC071691

**HYDERABAD**

**Mr. Ramesh Bob**  
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
 Hyderabad - 500 029.  
 Cell : + 91 90520 00521  
 Tel: +91-40-4010 2030  
 E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)