

Press Release

Beardsell Limited

January 07, 2019

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs.64.70 Cr. (Enhancement from Rs.39.70)
Long Term Rating	ACUITE BBB / Outlook: Negative (Revised from Stable to Negative)
Short Term Rating	ACUITE A3+

* Refer Annexure for details.

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs.39.70 crore bank facilities and assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs.25.00 crore bank facilities of Beardsell Limited (BL). The outlook is revised to '**Negative**' from '**Stable**'.

The revision in the outlook reflects Acuite's expectation of pressure on the working capital management as already reflected in the increase in Gross Current Assets (GCA) to 143 days in FY2018 against 121 days in FY2017, significant decline in operating profitability margins to 3.63 percent in FY2018 from 9.41 percent in FY2017, due to decline in revenues, increase in raw material prices and fixed overheads.

The rating continues to reflect extensive industry experience of the promoters, long track record of operations, and moderate financial risk profile. However, these strengths are partially offset by moderate working capital operations.

BL, incorporated in 1936, is a Chennai-based company engaged in the manufacture of pre-fab structures, industrial products (expanded polystyrene sheets, rigid polyurethane foam slabs) at Mumbai (Maharashtra), Chennai (Tamil Nadu), Bangalore (Karnataka) and Karad (Maharashtra).

Analytical Approach

Acuite has consolidated the business and financial risk profile of Beardsell Limited, Sarovar Insulation Private Limited and Saideep Polytherm (hereinafter referred to as BL or company) due to similarity in the lines of business and BL wholly controls both the entities.

Key Rating Drivers

Strengths

• Established Track record of operations and experienced management

The company is promoted by Mr. Bharat Anumolu, who has around two decades of experience in the packaging and construction industry. The company was incorporated in 1936 and was gradually expanded to the present seven facilities across India. The company is listed in both Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The promoter's experience in packaging and construction industry has helped the company build healthy relationship with its suppliers and customers, to ensure a steady raw material supply and large offtake. For FY2018, top ten customers of the company contributed ~12 percent of total revenues providing low customer concentration risk. The company benefits from the diversified business across packaging and pre- fab business.

Demand for pre-fabricated panel products are expected to rise considerably primarily due to increase in demand for affordable housing, site offices, clean rooms, cold storages & food processing plants, pharma and roofing applications. Demand for clean rooms are also increasing from the industries such as pharma, electronics and chemicals as these industries find need of clean spaces for specialised industrial products (such as pharmaceutical items, microprocessors, among others) and to do scientific research. Cold Chain & Food Processing industry poses a strong outlook led by increasing demand for convenience foods. The growth of online grocery stores and rise in e-retail market is also creating

demand for cold chain services.

Moreover, the Government has come out with favourable initiatives for cold chain industry because of rising exports of seafood, dairy products and other perishable items. The extended polystyrene (EPS) products, which find applications in insulation and packaging, have been showing strong growth potential from industries such as consumer durables. Given the rising disposable income & urbanisation trend, push for rural housing and widely available financing schemes, the consumer durables industry in India is expected to grow in double digits growth rate over the next five years. Acuité believes that promoter's extensive experience in packaging and construction industry and demand for the product would aid the business risk profile of the company over the medium term.

- **Moderate financial risk profile**

The company's financial risk profile is marked by healthy capital structure and moderate debt protection metrics. The gearing has deteriorated to 1.06 times as on March 31, 2018 from 0.90 times as on March 31, 2017 due to decline in operating margins. Operating margins declined from 9.41 percent in FY2017 to 3.63 percent in FY2018 due to volatile raw material prices and increased fixed overheads. However, the company reported operating margin of 4.85 percent in H1FY2019 as against 1.66 percent in H1FY2018. Improvement of the operating margins to the earlier levels is a key rating sensitivity factor amid stagnant revenues.

Net worth is comfortable at Rs.33.77 crore in FY2018. However, sharp decline in operating margins have led to deterioration of the debt protection metrics of net cash accruals to total debt and interest coverage ratio which stood at 0.11 times and 1.75 times in FY2018 vis-à-vis 0.30 times and 3.67 times in FY2017, respectively. BL has reported cash accruals of Rs.4.42 crore in 2018 with annual repayment obligations of about Rs.2.00 crore per annum. Acuité believes that with moderate profitability margins, and no major significant capex plans, the financial risk profile is expected to improve over the medium term.

Weaknesses

- **Intense working capital operations**

The group has intense working capital operations as evident from its Gross Current Assets (GCA) of 143 days as on March 31, 2018 as against 121 days as on March 31, 2017. The company maintains an inventory of about 25 to 30 days and gives credit period of 60 days to its customers. Inventory days stood at 30 as on March 31, 2018 as against 25 days as on March 31, 2017. Debtor days stood at 78 as on March 31, 2018 as against 65 days as on March 31, 2017. Moderate working capital management has led to high utilisation of its working capital limits at about 90 percent over the past six months ended September 2018. With expected increase in scale of operations, the working capital needs are likely to intensify further. Acuité further believes that with manufacturing and sales operations throughout the year, the operations continue to be working capital moderate over the medium term.

- **Susceptibility of operating margins to volatility in raw material prices**

Operating margins of the group is susceptible to changes in crude, iron and steel prices; which are highly volatile. Any abrupt change in raw material prices can lead to distortion in market prices and affect the profitability of players. Operating margins of the company declined from 9.41 percent in FY2017 to 3.63 percent in FY2018; though partly recovered to 4.85 percent in H1FY2019.

Outlook: Negative

Acuité believes that BL's operations continue to be working capital intensive marked by high GCA, stretch in the liquidity and volatile operating margins. The ratings may be downgraded in case of further stretch in its working capital management leading to pressure on its liquidity, or any significant volatility in profitability margins. The outlook may be revised to 'Stable' in case of higher-than-expected improvement in revenues and accruals, while improving its working capital management.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	167.85	190.25	160.69
EBITDA	Rs. Cr.	6.10	17.90	11.97
PAT	Rs. Cr.	0.38	5.52	3.13
EBITDA Margin	(%)	3.63	9.41	7.45
PAT Margin	(%)	0.23	2.90	1.95
ROCE	(%)	7.21	20.36	28.55
Total Debt/Tangible Net Worth	Times	1.06	0.90	1.07
PBDIT/Interest	Times	1.75	3.67	2.58
Total Debt/PBDIT	Times	4.21	1.73	2.59
Gross Current Assets (Days)	Days	143	121	120

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
30-Dec-2017	Term Loan	Long Term	9.21	ACUITE BBB/Stable (Upgraded)
	Cash Credit	Long Term	11.00	ACUITE BBB/Stable (Upgraded)
	Packing Credit	Short Term	4.00	ACUITE A3+ (Upgraded)
	Letter of Credit	Short Term	15.00	ACUITE A3+ (Upgraded)
	Proposed Long Term Loan	Long Term	0.49	ACUITE BBB/Stable (Upgraded)
29-Sep-2016	Cash Credit	Long Term	9.50	ACUITE BBB-/Stable (Upgraded)
	Term Loan	Long Term	13.70	ACUITE BBB-/Stable (Upgraded)
	Packing Credit*	Long Term	3.00	ACUITE BBB-/Stable (Upgraded)
	Working Capital Demand Loan	Long Term	1.00	ACUITE BBB-/Stable (Upgraded)
	Letter of Credit#	Short Term	12.50	ACUITE A3 (Upgraded)

*100 per cent interchangeability with cash credit facility.

100 per cent interchangeable with each other.

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB / Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BBB / Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB / Negative (Assigned)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A3+ (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3+ (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.70	ACUITE BBB / Negative (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ (Assigned)

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About Acuité Ratings & Research:

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