

Press Release

Bharat Industrial Corporation

10 January, 2018



Rating Upgraded and Reaffirmed

Total Bank Facilities Rated	12.00 Cr.
Long Term Rating	SMERA B+/Stable (Upgraded from SMERA B/Stable)
Short Term Rating	SMERA A4

SMERA has upgraded the long term rating to '**SMERA B+**' (read as **SMERA B plus**) from '**SMERA B**' (read as **SMERA B**) and reaffirmed the short term rating of '**SMERA A4**' (read as **SMERA A Four**) on the Rs. 12.00 crore bank facilities of Bharat Industrial Corporation. The outlook is '**Stable**'.

The upgrade is in view of the established track record of the firm (more than four decades). SMERA believes that the firm will sustain its existing business profile on account of its experienced management and established customer relations.

Bharat Industrial Corporation (BIC), a partnership firm established in 1965 is engaged in the manufacturing and marketing of incense sticks, dhoop cones and sticks under the 'Panchavati' brand name. The manufacturing facility is located at Bangalore with installed capacity of 429600 dozens of incense sticks and 286400 dozens of dhoop sticks. The firm exports its products to Iraq, UAE, Ethiopia and Chile.

Key rating drivers

Strengths

Experienced promoter, established track record of operations

Established in 1965 by Mr. Bharat Shah, BIC is a partnership firm. The Partners, Mr. Ronak B Shah, Mrs. Payal H Shah and Mr. Tejesh Shah have more than four decades of experience in the said line of business.

Weaknesses

Below average financial risk profile

The financial risk profile of the firm is below average marked by net worth of Rs. 3.34 crore as on 31 March, 2017 as against Rs. 1.97 crore as on 31 March, 2016. The gearing stood high at 4.60 times as on 31 March, 2017 as against 8.55 times in the previous year. The total debt of Rs. 15.36 crore outstanding as on 31 March, 2017 comprises Rs. 1.77 crore of term loan from banks, Rs. 0.85 crore as unsecured loans and Rs. 12.74 crore of short term borrowing from the bank.

The Interest Coverage Ratio stood at 1.52 times in FY2017 as against 1.81 times in FY2016. The Debt Service Coverage Ratio stood at 1.43 times in FY2017 and 1.57 times in FY2016.

The net cash accruals stood at Rs. 0.70 crore in FY2017 as against Rs. 0.86 crore in FY2016. The Net cash accruals to total debt stood at 0.05 times in FY2017.

Working capital intensive operations

The operations of the firm are working capital intensive marked by high Gross Current Asset days of 226 in FY2017 and 198 days in FY2016. This is majorly on account of high inventory holding period of 125 days in FY2017 as against 113 days in FY2016. The receivable days have also increased to 96 in FY2017 compared to 71 in FY2016. The average bank limit utilisation stood at 98.89 per cent for the last six months ended November 2017.

Declining revenue trend

The firm has shown declining revenue trend during the period FY2015 to FY2017. The revenue stood at Rs. 37.31 crore in FY2017 as against Rs. 43.26 crore in FY2016 and Rs. 47.01 crore in FY2015. Further, the firm booked revenue of Rs. 19.00 crore for the period April to November 2017 (Provisional) with around Rs.10.00 crore of revenue being generated from Egypt. However, with changes in government policies, Egypt was no more as profitable a market. As a result, the firm decided to target other markets overseas.

Uneven profitability margins

The profitability margins of the firm have been uneven during FY2015 to FY2017 due to fluctuations in raw material prices. The EBITDA margin stood at 6.63 percent in FY2017 as against 6.23 percent in FY2016 and 7.00 percent in FY2015. The PAT margins stood at 1.21 percent in FY2017 as against 1.34 percent in FY2016 and 1.83 percent in FY2015.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of BIC to arrive at the rating.

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Outlook – Stable

SMERA believes that the outlook of BIC will remain 'Stable' over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case of improvement in the scale of operations and effective working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial profile.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	37.31	43.26	47.01
EBITDA	Rs. Cr.	2.47	2.69	3.29
PAT	Rs. Cr.	0.45	0.58	0.86
EBITDA Margin	(%)	6.63	6.23	7.00
PAT Margin	(%)	1.21	1.34	1.83
ROCE	(%)	11.94	13.94	18.39
Total Debt/Tangible Net Worth	Times	4.60	8.55	3.50
PBDIT/Interest	Times	1.52	1.81	2.00
Total Debt/PBDIT	Times	6.18	6.19	3.84
Gross Current Assets (Days)	Days	223	198	167

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
02-Nov, 2016	Cash Credit	Long Term	5.00	SMERA B / Stable (Assigned)
	Packing Credit	Short Term	4.00	SMERA A4 (Assigned)
	Post Shipment credit	Short Term	3.00	SMERA A4 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA B+/Stable (Upgraded from SMERA B/Stable)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA A4 (Reaffirmed)
Post Shipment credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A4 (Reaffirmed)

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ABOUT SMERA

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