

Press Release

BHARAT INDUSTRIAL CORPORATION

February 26, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 12.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 12.00 crore bank facilities of BHARAT INDUSTRIAL CORPORATION (BIC). The outlook is '**Stable**'.

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

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced promoter and 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

- **Average financial risk profile**

The financial risk profile of the firm is average marked by tangible net worth of Rs. 4.22 crore as on 31 March, 2018 (PY: Rs. 3.34 crore). The total debt of Rs. 16.14 crore outstanding as on 31 March, 2018 comprise Rs. 1.69 crore as term loan from the financial institution, Rs. 1.15 crore as unsecured loans from the promoters and Rs. 3.30 crore as working capital borrowings from the bank. The gearing stood at 3.83 times as on 31 March, 2018 (PY: 4.60 times). The interest coverage ratio stood at 1.29 times in FY2018 (PY: 1.52 times), ICR has declined on account of decline in operating profits coupled with increase in debt levels in FY2018. The net cash accruals declined to Rs. 0.37 crore in FY2018 as against Rs. 0.70 crores in FY2017.

- **Declining revenue trend along with declining profitability**

The firm has shown declining revenue trend during the period FY2016 to FY2018 under the study. The revenue stood at Rs. 31.00 crore for FY2018 as against Rs. 37.31 crore in FY2017 and Rs. 43.26 crore in FY2016. The reason for revenues to decline Y-O-Y is because of slow down in the sale of incense sticks to Egypt due to changes in the government policies of Egypt. The operating profitability margins of the firm increased to 6.94 percent in FY2018 as against 6.63 percent in FY2017. However, the net profitability declined to 0.50 percent in FY2018 as against 1.21 percent in FY2017 majorly on account of high interest expenses due to increase in debt levels as well as infusion of interest bearing unsecured loans. Acuite believes that the ability of the firm in order to maintain its revenues along with the profitability will be key rating sensitivities.

• Working capital intensity

The operations of the firm have remained working capital intensive marked by high Gross Current Asset (GCA) of 273 days in FY2018 as against 224 days in FY2017. This is majorly on account of increase in inventory holding period to 147 days in FY2018 (PY: 125 days) and debtors of 106 days in FY2018 (PY: 96 days) due to delay in realisation of receivable which were through exports. The credit period allowed by the suppliers ranges between 50 to 60 days which results in full utilisation of the bank limits. The average bank limit utilisation stood at 95.76 per cent for the last six months ended December 2018. The current ratio stood at 1.25 times as on 31 March, 2018. Acuite believes that the working capital requirements will remain high in the medium term due to the export oriented unit and stretched receivables. Thus, efficient management of working capital will remain crucial for the maintenance of a stable credit risk profile.

Outlook: Stable

Acuite believes that the outlook on BIC will remain 'Stable' over the medium term on account of experienced management. The outlook may be revised to 'Positive' in case of an improvement in the firm's scale of operations and effective working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of further decline in revenues and profitability of the firm.

Liquidity Position

BIC has moderate liquidity marked by declining net cash accruals to its maturing debt obligations. BIC generated cash accruals of Rs.0.37 crore to Rs.0.86 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.24 crore over the same period. The cash accruals of BIC are estimated to remain around Rs.0.47 crore – Rs. 0.78 crore during 2019-21, while its repayment obligation are estimated to be around Rs.0.24 crore. The firm's operations are highly working capital intensive as marked by gross current asset (GCA) days of 273 in FY 2018. This has led to higher utilization of working capital borrowings, the working capital limit in the firm remains utilised at 95 percent during the last 12 months period ended December 2018. Acuite believes that the liquidity of BIC is likely to remain weak over the medium term on account of declining net cash accrual.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	31.00	37.31	43.26
EBITDA	Rs. Cr.	2.15	2.47	2.69
PAT	Rs. Cr.	0.15	0.45	0.58
EBITDA Margin	(%)	6.94	6.63	6.23
PAT Margin	(%)	0.50	1.21	1.34
ROCE	(%)	9.90	11.94	26.00
Total Debt/Tangible Net Worth	Times	3.83	4.60	8.55
PBDIT/Interest	Times	1.29	1.52	1.81
Total Debt/PBDIT	Times	7.50	6.18	6.19
Gross Current Assets (Days)	Days	273	224	196

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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. Cr.)	Ratings/Outlook
10-Jan-2018	Cash Credit	Long Term	5.00	ACUITE B+ / Stable (Upgraded from ACUITE B/Stable)
	Packing Credit	Short Term	4.00	ACUITE A4 (Reaffirmed)
	Post Shipment Credit	Short Term	3.00	ACUITE A4 (Reaffirmed)
02-Nov-2016	Cash Credit	Long Term	5.00	ACUITE B / Stable (Assigned)
	Packing Credit	Short Term	4.00	ACUITE A4 (Assigned)
	Post Shipment Credit	Short Term	3.00	ACUITE A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B+ / Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4 (Reaffirmed)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Reaffirmed)

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About Acuite Ratings & Research:

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