Press Release

BDJ Oxides Private Limited

March 17, 2021

Rating Upgraded

Total Bank Facilities Rated*	Rs. 42.50 Cr.
Long Term Rating	ACUITE BBB/Stable (Upgraded)
Short Term Rating	ACUITE A3+ (Upgraded)

* *Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long term rating to **'ACUITE BBB' (read as ACUITE triple B)** from **'ACUITE BBB-' (read as ACUITE triple B minus)** and short term rating to **'ACUITE A3+' (read as ACUITE A three plus)** from **'ACUITE A3' (read as ACUITE A three)** on the Rs.42.50 crore bank facilities of BDJ Oxides Private Limited. The outlook is **'Stable'**.

The rating upgrade is on account of consistent improvement in the financial risk profile of the group along with improvement in working capital management. The financial risk profile of the group is characterised by improving networth, low gearing and strong debt protection metrics. The rating upgrade also factors in the continuous improvement in working capital management of the group which is marked by decrease in Gross Current Asset (GCA) days to 110 days in FY2020 as compared to 120 days in the previous year.

BDJ Oxides Private Limited was established in the year 2011 and started operation from 2017 as a private limited company by Mr. Aniruddh Jhunjhunwala and Mr. Anuj Jhunjhunwala. It is engaged in manufacturing of zinc oxide with an installed capacity of 26232 MTPA, which is used in automobile tyres, tubes, beltings and glassware, ceramics, lubricants, paints, and pharmaceuticals industries. The manufacturing facility of the company is located in Andhra Pradesh.

About the group

JG Chemicals Private Limited (JGC) was incorporated in 1975 and was promoted by the Jhunjhunwala family of Kolkata. The operations are managed by Mr Suresh Jhunjhunwala and his son Mr Anirudh Jhunjhunwala. JGC manufactures zinc oxide with an installed capacity of 12600 MTPA, which is used in automobile tyres, tubes, beltings and glassware, ceramics, lubricants, paints, and pharmaceuticals industries. The manufacturing units are located in Belur and Howrah in West Bengal.

Analytical Approach:

Acuité has consolidated the business and financial risk profiles of BDJ Oxides Private Limited with JG Chemicals Private Limited, herein referred to as BDJ Group. The consolidation is in view of common management, significant shareholding of JGC in BDJ Oxides, similar line of business and financial linkages in the form of corporate guarantees. Extent of consolidation: Full

Key Rating Drivers:

Strengths

Established track record of operation and experienced management

The promoters of the BDJ Group have a business experience spanning more than five decades, and have experience in various industries like glass, glassware, and chemicals. The directors, Mr. Anirudh Jhunjhunwala and Mr. Suresh Jhunjhunwala started two zinc oxide manufacturing units at Howrah, West Bengal under J.G Chemicals Pvt Ltd. In the year 2011, they started their second entity, i.e. BDJ Oxides Private Limited with the same line of operation of manufacturing of zinc oxides. The group has a long presence in this sector and has established a healthy relationship with customers for more than two decades.

Healthy financial risk profile

The financial risk profile of the group is marked by healthy net worth, low gearing and strong debt protection metrics. The net worth of the group stood healthy at Rs.92.11 crore in FY 2020 as compared to Rs 77.30 crore in FY2019. This improvement in networth is mainly due to the retention of current year profit. The gearing of the group stood low at 0.57 times as on March 31, 2020 when compared to 0.98 times as on March 31, 2019. This improvement in gearing is mainly on account of lower utilization of bank borrowings and improvement in networth of the group during the period. Interest coverage ratio (ICR) is healthy and stood 3.82 times in FY2020 as against 4.72 times in FY 2019. The debt service coverage ratio (DSCR) of the group also stood healthy at 1.93 times in FY2020 as compared to 1.85 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.32 times in FY2020 as compared to 0.29 times in the previous year. Going forward, Acuité believes the financial risk profile of the group will remain healthy backed by no major debt funded capital expenditure plan over the medium term along with steady cash accruals.

Healthy scale of operation & locational advantages
The turnover levels of the group stood healthy at Rs.398.54 crore in FY2020 as compared to Rs.424.78 crore in the previous year. This deterioration in revenue of the group is mainly on account of lower sales during the year end due to nation-wide lockdown. Currently, the group has achieved revenue of Rs.387.00 crore till 28th February, 2021 (Prov.).

The unit of BDJ is located in Attivaram region of Andhra Pradesh, which is an auto ancillary hub. The group is enjoying locational advantage and also catering to the regular demand from different tyre companies. The manufacturing units of JGC are situated in Howrah, West Bengal, which basically caters to the tyre producing units in eastern part of the country. Apart from this, the group has also been catering to pharmaceutical industry, ceramic industry, glass industry, among others. The favorable location of the plant ensures timely availability of raw materials with minimum logistical costs. Acuité believes that the group will continue to capitalize on their locational advantages to enhance its overall business risk profile by improving its revenue and profitability.

Weaknesses

Moderate working capital management
The group has moderate working capital management marked by moderate gross current asset (GCA) days of 110 days in FY2020 as compared to 120 days in the previous year. The inventory holding period of the group stood moderate at 44 days in FY2020 as compared to 68 days in the previous year. The debtor days of the group stood moderate at 46 days in FY2020 as compared to 43 days in the previous year. However, the high GCA days of the group is mainly on account of high other current assets of Rs.24.70 crore in FY2020, which consists of advances for goods and services, statutory deposits and advance tax paid. Acuité believes that the ability of the group to manage its working capital operations efficiently will remain a key rating sensitivity.

Declining profitability margin
The operating profitability margin of the group has declined and stood moderate at 6.00 per cent in FY2020 as compared to 7.85 per cent in the previous year. This deterioration in operating profitability is on account of an increase in zinc scrap price globally during the period. Further, the net profitability margin of the group has also declined to 3.72 per cent in FY2020 as compared to 4.81 per cent in the previous year. Acuité believes the profitability margin of the group will stabilise over the medium term on account of their well-established position in the eastern part of the country.

Rating Sensitivity
- Ramp up of operations while improving their profitability margin
- Sustenance of their conservative capital structure
- Working capital management

Material Covenant
None

Liquidity Position: Healthy
The group has healthy liquidity marked by healthy net cash accruals of Rs.16.71 crore as against Rs.1.60 crore long term debt obligations in FY2020. The cash accruals of the group are estimated to remain in the range of around Rs. 16.07 crore to Rs. 20.25 crore during 2021-23 as against Rs. 1.85 crore of long term debt obligations in FY2021, and Rs.2.10 crore of long term obligation in FY2022 and in FY2023, respectively. The current ratio of the group stood comfortable at 2.33 times in FY2020. Moreover, the working capital management of the group is marked by moderate Gross Current Asset (GCA) days of 110 days in FY2020. The bank limit of the group has been ~75 percent utilized during the last six months ended in February 2021. Moreover, the group has availed the covid emergency fund of Rs. 1.52 crore. The said loan has to be repaid over a period of 4 years, including 1 year of moratorium. However, the group has not availed the loan moratorium till August 2020. Acuité believes

that the liquidity of the group is likely to remain healthy over the medium term on account of healthy cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuité believes the group will maintain a stable business risk profile over the medium term. The group will continue to benefit from its experienced management and established association with customers and suppliers, along with healthy financial risk profile. The outlook may be revised to "Positive" in case the company registers a significant increase in the scale of operations while improving their profit margins and achieving efficient working capital management. The outlook may be revised to 'Negative' in case of deterioration in the group's scale of operations and profitability or capital structure or in case of further elongation of the working capital cycle.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	398.54	424.78
PAT	Rs. Cr.	14.84	20.45
PAT Margin	(%)	3.72	4.81
Total Debt/Tangible Net Worth	Times	0.57	0.98
PBDIT/Interest	Times	3.82	4.72

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	177.36	172.80
PAT	Rs. Cr.	4.39	6.87
PAT Margin	(%)	2.48	3.98
Total Debt/Tangible Net Worth	Times	1.87	2.70
PBDIT/Interest	Times	2.48	3.65

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

None

Any other information

None

Applicable Criteria

- Default Recognition –https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities – https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments – https://www.acuite.in/view-rating-criteria-53.htm
- Consolidation of Companies - https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
12-June-2020	Cash Credit	Long Term	9.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan I	Long Term	2.50	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan II	Long Term	5.50	ACUITE BBB-/Stable (Assigned)

	Cash Credit	Long Term	25.00	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A3 (Reaffirmed)
24-Dec-2019	Cash Credit	Long Term	9.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan I	Long Term	2.50	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan II	Long Term	5.50	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	25.00	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A3 (Reaffirmed)
28-Sep-2018	Cash Credit	Long Term	9.00	ACUITE BBB-/Stable (Upgraded)
	Term Loan	Long Term	4.50	ACUITE BBB-/Stable (Upgraded)
	Bank Guarantee	Short Term	0.50	ACUITE A3 (Upgraded)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB/Stable (Upgraded)
Term Loan I	Mar 2017	11.25%	Dec 2021	2.50	ACUITE BBB/Stable (Upgraded)
Term Loan II	Dec 2018	11.25 %	Dec 2024	5.50	ACUITE BBB/Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB/Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3+ (Upgraded)

Contacts:

Analytical	Rating Desk
Pooja Ghosh Head– Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in Abhishek Dey Rating Analyst Tel: 033-66201208 abhishek.dey@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.