

Press Release

BHAGWATI PRODUCTS LIMITED



March 09, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs.850.00 Cr.
Long Term Rating	SMERA A- / Outlook: Stable
Short Term Rating	SMERA A2+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA A-**' (**read as SMERA A minus**) and short term rating of '**SMERA A2+**' (**read as SMERA A two plus**) on the Rs.850.00 crore bank facilities of Bhagwati Products Limited. The outlook is '**Stable**'.

Bhagwati Products Limited, (the erstwhile Bhagwati Cookies & Wafers Limited) was engaged in the manufacturing and trading of edible products like biscuits, cakes, pastries and electronic products (batteries, chargers, Bluetooth). In December 2011, Micromax Informatics Limited (MIL) acquired 80 per cent stake in BCWL and the name was changed to Bhagwati Products Limited (BPL). In August, 2014, MIL's entire shareholding in BPL was transferred to Mr. Rajesh Agarwal - the current promoter of BPL. As on 31 March, 2017, Mr. Rajesh Agarwal directly holds 84.43 per cent. The balance 15.47 per cent was held by Mr. Mukesh Gupta (10.55 per cent) and VRS & Associates (5 per cent).

BPL is engaged in the assembling of mobile handsets, LED TV, power banks, chargers among others for MIL. The company has three manufacturing facilities at Rudrapur, Hyderabad and Bhiwadi. BPL is in the process of commissioning two more facilities at Greater Noida and Indore.

Key Rating Drivers

Strengths

• **Established track record of management in the consumer electronics business**

BPL is the manufacturing arm of the Micromax Group, a domestic group with presence across mobile phones, LED TVs, & solar inverters. Micromax Group includes MIL, the flagship marketing company and its subsidiaries, YU Televenture Private Limited, Mobi Serve Private Limited, Mobi Serve Private Limited, Micromax Informatics FZE and Micromax Informatics Technology (Beijing) Co. Ltd. The Micromax group has been in operations since 2000. MIL procures various products from BPL and other vendors and sells these products in the domestic market under the 'Micromax' brand name through a network of distributors and channel partners.

Mr. Rajesh Agarwal, the promoter is also a co-founder and director of MIL. Mr. Agarwal has 20 years of experience in the trading and assembling of mobile handsets and consumer electronic items. BPL's board of directors includes Mr. Mukesh Gupta, founder of 'Microtek' brand of invertors and Director of MIL. Mr. Mukesh Gupta also has nearly 20 years of experience in the consumer electronics business in India.

SMERA expects BPL to benefit from its promoters' established track record in the mobile phone and consumer electronics business. The promoter's ability to leverage its market intelligence and understanding of consumer behaviour in the electronics business is expected to augur well for Micromax in terms of introduction of new product categories and consolidation of market share for existing product categories which in turn will support the revenue growth of BPL.

• Prudent financial risk profile:

BPL has been able to maintain a conservative financial risk profile marked by healthy networth, low gearing and robust debt protection metrics. BPL's networth on 31 March, 2017 stood at Rs.314.82 crore - a CAGR of 130 per cent from Rs.25.99 cr. as on 31 March, 2014. The growth in networth is mainly on account of plough back of profits by BPL.

The company has been conservatively geared with a debt-to-equity ratio of 0.17 times on 31 March, 2017 vis-à-vis 0.21 times on 31 March, 2016. The borrowings comprise a mix of both working capital borrowings and long term borrowings. BPL reported a healthy interest coverage ratio of 3.42 times in FY2017 as against 5.35 times in FY2015-16. BPL reported a Net Cash Accruals to Total Debt ratio of 1.35 times in FY2017 vis-à-vis 2.58 times in FY2016.

BPL is currently commissioning two assembly plants at Greater Noida (Uttar Pradesh) and Indore (Madhya Pradesh) with estimated capital expenditure of Rs.80 crore. Presently, MIL procures only 40 per cent of its annual purchases from BPL. The capacity expansion is expected to enable BPL to garner a larger proportion of MIL's overall procurement and is also aimed at supporting MIL's entry in other consumer electronics segments such as air conditioners and washing machines.

Going forward, SMERA expects only a marginal increase in the overall debt levels since a major part of the capex program will be funded through internal accruals. SMERA believes that BPL's ability to sustain a healthy financial risk profile will be dependent on the offtake by MIL and its ability to remain cost competitive Vis a Vis other vendors. The level of offtake by MIL and movement in operating margins will be the key rating sensitivities.

Weaknesses**• Intense competition from existing players:**

The mobile handset segment in India is characterised by a highly competitive landscape with well entrenched players like Samsung and Apple at the high end of the market and Micromax, Oppo, Xiomi and Vivo at the mid to lower end segment. The competitive intensity has increased on account of import of Chinese handsets. The entry of new service providers like Reliance Jio with 4G enabled technology has resulted in a large number of users migrating to mobile handsets with 4G enabled features. The disruption in the market has enabled Chinese players to meet the demands of the value conscious Indian consumer. Such technological shifts result in realignment of the market share for existing players and increase the pace of obsolescence of existing models based on older technologies.

Apart from mobile handsets, the Micromax Group is also gradually venturing into the consumer electronics segment. In FY2017 approximately 30 per cent of BPL's operating income was generated from the sale of LED televisions and other consumer electronic items which are characterised by longer product lifecycles and value for money proposition. The brand equity and ability to provide quality after sales services over the life of the product are key demand drivers for this segment. Well established players like Samsung, Sony, LG & Panasonic have their presence across electronic product categories which further strengthens brand recall value and imparts diversity to their revenue profile.

While the Micromax Group has an established presence in the mobile handset segment, it will be required to spend significantly on its brand building exercise, especially in the new segments - LED TVs and ACs if it has to meaningfully penetrate this intensely competitive segment. This could result in profitability margin pressures over the near to medium term which may percolate down to vendors like BPL.

On the flip side, policy initiatives by the Government of India such as increase in import duties for Completely Built-up Units (CBUs) and tax incentives for manufacturing entities are expected to support domestic players like BPL.

SMERA believes that the operating performance of domestic players like BPL will continue to remain susceptible to the pan-industry competitive scenario. The ability of these players to improve their operating efficiency and maintain a healthy product pipeline shall be key credit monitorables.

• Susceptibility of operating metrics to the performance of the 'Micromax' Brand:

MIL began trading in mobile phones in 2000 and eventually diversified to other consumer electronic products like LED TVs, air conditioners to name a few. MIL markets and distributes its products under the 'Micromax' brand via a pan-India dealership and retail network. The company reported operating income of Rs.2222.59 crore in FY2017 as against Rs.4764.22 crore in FY2016 and Rs.1818.67 crore for the period April to December 2017. The 'Micromax' brand has been facing competitive pressures from both - existing players as also new entrants.

MIL procures CBUs from BPL in India and also from Chinese players. BPL sells 100 per cent of its CBUs to MIL and its related entities. SMERA believes that challenges faced by MIL in expanding its market-share could slowly trickle to lower traction in revenues for BPL - thereby impacting its operating metrics.

Analytical Approach

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

Outlook: Stable

SMERA believes that BPL will maintain a stable outlook over the medium term on account of its experienced management, long track-record of operations and prudent financial risk profile. The outlook may be revised to 'Positive' in case of significant increase in BPL's scale of operations while maintaining its receivable collection efficiency and profitability margins over the medium term. Conversely, the outlook may be revised to 'Negative' in case of lower than expected operating income, and/or profitability margins on account of competitive pressures faced by MIL or significant increase in overhead costs of the company.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	2222.59	4764.22	1832.60
EBITDA	Rs. Cr.	119.06	171.77	110.84
PAT	Rs. Cr.	64.70	140.01	103.14
EBITDA Margin	(%)	5.36	3.61	6.05
PAT Margin	(%)	2.91	2.94	5.63
ROCE	(%)	34.68	72.06	133.24
Total Debt/Tangible Net Worth	Times	0.17	0.21	0.33
PBDIT/Interest	Times	3.42	5.38	19.44
Total Debt/PBDIT	Times	0.42	0.31	0.36
Gross Current Assets (Days)	Days	65	57	57

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***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	SMERA A- / Stable
E-VFS	Not Applicable	Not Applicable	Not Applicable	200.00	SMERA A- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A- / Stable
Letter of credit/Buyers credit	Not Applicable	Not Applicable	Not Applicable	125.00*	SMERA A2+
Letter of credit/Buyers Credit	Not Applicable	Not Applicable	Not Applicable	125.00	SMERA A2+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	75.00**	SMERA A2+
Inland Letter of credit/Foreign Letter of credit	Not Applicable	Not Applicable	Not Applicable	180.00***	SMERA A2+
Inland Letter of credit/Foreign Letter of credit	Not Applicable	Not Applicable	Not Applicable	45.00	SMERA A2+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	90.00	SMERA A2+

[^]One way interchangeability towards Non-Fund Based Limits

^{}Sub-Limit of Rs.20.00 cr. in the form of Cash Credit/WCDL*

*^{**} Sub-Limit of Rs.5.00 cr. in the form of Cash Credit Limit*

*^{***} Sub-Limit of Rs.35.00 cr. in the form of Cash Credit Limit*

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ABOUT SMERA

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