

Press Release

Bhagwati Products Limited (BPL)

02 July, 2020

Rating Downgraded & Withdrawn



Total Bank Facilities Rated*	Rs. 450.00 Cr. (Reduced from Rs.850.00 crore)
Long Term Rating	ACUITE BBB-/Stable (Downgraded & Withdrawn; Outlook revised from Negative to Stable)
Short Term Rating	ACUITE A3 (Downgraded)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BBB'** (read as **ACUITE triple B**) and short term rating to '**ACUITE A3'** (read as **ACUITE A three**) from '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs.450.00 crore of bank facilities of Bhagwati Products Limited. The outlook is revised to '**Stable**' from '**Negative**'.

Acuite has also downgraded and withdrawn the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.75.00 crore bank facility of Bhagwati Products Limited.

The downgrade in the ratings is on account of significant deterioration in business risk profile marked by decline in operating revenue as well as the profitability margins of the company. The revenues of the company have declined to around Rs. 460 crore in FY'2020 (provisional) as compared to Rs. 2174 crore in FY'2018. This decline in revenue is mainly on account of limited order flow from Micromax Infomatics Limited (MIL), the primary customer of the company for manufacturing of mobile phone. Increased competition from the Chinese market also contributed to their fall in turnover levels. The rating revision also reflects the fall in their profitability margins. The company has reported net losses in FY'2019 from a 1.37 net profit margin in the preceding year. In FY'2020, the company is estimated to have booked marginal profits at the profit after tax (PAT) level.

Acuite has however revised the outlook from 'Negative' to 'Stable.' The revision in outlook is based on the expectation that the company would be able to move onto a positive growth trajectory even though the company has witnessed significant downturn in the past two years ended FY'2020. Acuite draws comfort from the agreement entered into by the company with Oppo Mobiles India Pvt Ltd for supply of LED TVs at a steady offtake of around Rs. 70 crore per month. This lends revenue visibility over the medium term.

Delhi based, BPL (the erstwhile Bhagwati Cookies & Wafers Limited) was previously engaged in manufacturing and trading of edible products such as biscuits, cakes, pastries and electronic products (batteries, chargers, Bluetooth). In December 2011, the name was changed to Bhagwati Products Limited (BPL). Currently the company is managed by Mr. Rajesh Agarwal, Mr. Rahul Sharma, Mr. Vikash Jain, Mr Sumit Kumar and Mr. Mukesh Gupta. BPL is engaged in manufacturing of LED TV, Mobile Phones, Air-Conditioner, Lithium-Ion Battery, LED TV Panel, PCBA and Moulding plant for AC and TV components. The company has three manufacturing facility located in Rudrapur (Uttarakhand), Hyderabad (Telangana) and Bhiwadi (Rajasthan), with a combined installed capacity of 60 lakh pcs/annum of mobile phone, 6 lakh pcs/annum of LED TV, 5 lakh pcs/annum of PCBA, 6.50 lakh pcs/annum of LED Panel and 3 lakh pcs/annum of Air-Conditioner.

Analytical Approach:

Acuite has considered standalone business and financial risk profile of BPL while arriving at the rating.

Key Rating Drivers:

Strengths

Established track record of operation and experienced management

BPL is promoted by Mr. Rajesh Agarwal (holding 29.44 per cent stake), VRS & Associates (holding 60.00 per cent stake which is a partnership firm of Mr. Rahul Sharma, Mr. Sumeet Kumar and Mr. Vikas Jain) and SMK & Associates (holding 10.55 percent stake which is partnership firm of Mr. Mukesh Gupta and family) Mr. Rajesh Agarwal (Chairman of BPL), Mr. Rahul Sharma, Mr. Sumeet Kumar and Mr. Vikas Jain are also co-promoters of Micromax Infomatics Limited (MIL). The promoters of BPL have background in engineering with an industry experience of more than a decade each in the technology and telecommunications industry. The management of BPL is supported by a team of experienced and qualified professionals who are involved in the day to day operations. The long-standing experience of the directors has helped the company to diversify their product mix and acquire new customers.

Healthy financial risk profile

The financial risk profile of the company is marked by healthy net worth, comfortable gearing and healthy debt protection metrics. The net worth of the company stood healthy at Rs.339.99 crore in FY2019 as compared to Rs.340.48 crore in FY2018. This decline in network is mainly due to net loss during the period. Further, the network of the company stood healthy at Rs.345.25 crore as on 9MFY2020 (provisional). Historically, the company has been able to maintain their gearing at very low levels mainly due to its high network base and low reliance on external debt. The gearing of the company stood low at 0.17 times as on March 31, 2019 when compared to 0.19 times as on March 31, 2018. The total debt of Rs 58.63 crore in FY2019 mainly comprises of long term loan of Rs.23.42 crore and short term loan of Rs.35.20 crore. The gearing levels of the company are expected to be at similar levels in FY'2020. Interest coverage ratio (ICR) is comfortable and stood at 1.81 times in FY2019 as against 2.32 times in FY 2018. However, the debt service coverage ratio (DSCR) stood low at 0.78 times in FY2019 as against of 1.53 times in FY2018, driven by reducing profitability leading to low net cash accruals. The net cash accruals to total debt (NCA/TD) stood moderate at 0.16 times in FY2019 as compared to 0.62 times in the previous year. The interest coverage ratio of the company also stood healthy at 3.36 times as on 9MFY2020 and debt service coverage ratio is also comfortable at 3.36 times during the same period. Acuite believes the financial risk profile of the company will be healthy over the medium term backed by no major capex plan and improved accruals ensured from the offtake arrangement with Oppo Mobiles.

Efficient working capital management

BPL has efficient working capital management as evident from gross current assets (GCA) days of 89 as on March 31, 2019 as against 53 days as on March 31, 2018. The inventory days stood comfortable at 38 days in FY2019 as compared to 23 days in the previous year. Moreover, the inventory days of the company has improved further to 34 days in FY2020 (Prov.). This comfortable inventory is mainly on account of BPL issuing Purchase Orders (PO) to its suppliers for Semi Knock Down (SKD's) products only after receiving the purchase order for Complete Build Unit (CBU's) from its customers. This leads to lower inventory holding period for the company. The debtor days also stood comfortable between 15 to 17 days from FY'2019 to FY'2020 (provisional).

Weaknesses

Declining revenue and profitability margin

The revenue of the company has continuously declined during the period under study. The revenue of the company has declined significantly in FY2019 to Rs.890.89 crore as compared to Rs.2174.15 crore in FY 2018. The revenue of the company has again declined to Rs.460.00 crore in FY2020 (Prov.). This significant decline in revenue is mainly on account of limited order flow from Micromax Infomatics Limited for manufacturing of mobile phone, which was the primary customer of the company apart from significant competition from the Chinese market. The revenue of the company has also declined on account of decrease in average selling price of LED TV during FY2019. The demand has also remained subdued in the first quarter of the current financial year due to the Covid19 pandemic. However, the company has already diversified their customer profile and product profile towards non-mobile segments such as LED TV, Air-Conditioner and etc. which is expected to boost their revenue profile going forward.

The operating profitability margin of the company has declined to 2.23 per cent in FY2019 as compared to 3.65 per cent in the previous year. The company has reported net losses in FY'2019 as against a net profit

margin of 1.37 per cent in the previous year. The company is expected to report marginal net profit margins of around 0.26 percent in FY2020 (provisional).

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, Xiami 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 Oppo, Micromax is also gradually venturing into the consumer electronics segment. In FY2019 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.

Rating Sensitivity

- Scaling up of operations while maintaining their profitability margin
- Sustenance of their conservative capital structure

Material Covenant

None

Liquidity Position: Adequate

Acuite believes that the company has adequate liquidity marked by moderate net cash accruals in FY2019 of Rs.9.49 crore as against Rs.12.81 crore of yearly debt obligations. The cash accruals of the company are estimated to remain in the range of around Rs. 10.64 crore to Rs. 22.19 crore during 2020-22 against Rs.10.43 crore repayment obligations in FY2021. The gross current asset (GCA) days stood comfortable at 89 days in FY2019. The bank limit is 95 per cent utilized by the company for last six months ended May 2020. The current ratio of the company stood at 2.00 times as on March 31, 2019. The liquidity position of company is also supported by the fixed deposit investment of Rs.70.00 crore (Prov.). The liquidity of the company is also supported by the unencumbered cash balance of Rs.42.64 crore in FY2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuite believes that the company will continue to benefit over the medium term from its management's extensive experience and established position in manufacturing of consumer durables product. The outlook may be revised to 'Positive' if there is a substantial and significant increase in the company's revenues along with improvement in their profitability margins. Conversely, the outlook may be revised to 'Negative' in case of a further decline in turnover levels and profitability margins, or significant deterioration in its capital structure most likely because of a stretch in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	890.89	2174.15
PAT	Rs. Cr.	(0.35)	29.88
PAT Margin	(%)	(0.04)	1.37
Total Debt/Tangible Net Worth	Times	0.17	0.19
PBDIT/Interest	Times	1.81	2.32

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>

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
11-Apr-2019	Cash Credit	Long Term	5.00	ACUITE BBB/Negative (Downgraded)
	Cash Credit	Long Term	35.00	ACUITE BBB/Negative (Downgraded)
	Proposed	Long Term	205.00	ACUITE BBB/Negative (Downgraded)
	Letter of Credit	Short Term	175.00	ACUITE A3+ (Downgraded)
	Letter of Credit	Short Term	75.00	ACUITE A3+ (Downgraded)
	Inland Letter of Credit/Foreign Letter of Credit	Short Term	145.00	ACUITE A3+ (Downgraded)
	Inland Letter of Credit/Foreign Letter of Credit	Short Term	90.00	ACUITE A3+ (Downgraded)
	Proposed Bank Facility	Short Term	120.00	ACUITE A3+ (Downgraded)
09-Mar-2018	Cash Credit	Long Term	5.00	ACUITE A-/Stable (Assigned)
	E-VFS	Long Term	200.00	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE A-/Stable (Assigned)
	Letter of Credit	Short Term	125.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	125.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	75.00	ACUITE A2+ (Assigned)
	Inland Letter of Credit/Foreign Letter of Credit	Short Term	180.00	ACUITE A2+ (Assigned)
	Inland Letter of Credit/Foreign Letter of Credit	Short Term	45.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	90.00	ACUITE A2+ (Assigned)

***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	5.00	ACUITE BBB-/Stable (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB-/Stable (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	March 2021	7.73	ACUITE BBB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A3 (Downgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A3 (Downgraded & Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A3 (Downgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A3 (Downgraded)
Proposed Short Term Facility	Not Applicable	Not Applicable	Not Applicable	261.27	ACUITE A3 (Downgraded)

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About Acuité Ratings & Research:

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