Press Release

Bhagwati Products Limited

September 08, 2021

Rating Upgraded

Total Bank Facilities Rated*	Rs.450.00 Cr.
Long Term Rating	ACUITE BBB/Outlook: Stable (Upgraded from ACUITE BBB-/Stable)
Short Term Rating	ACUITE A3+ (Upgraded from ACUITE A3)

** 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 the short term rating to **'ACUITE A3+' (read as ACUITE A three plus)** from **'ACUITE A3' (read as ACUITE A three)** on the Rs.450.00 crore bank facilities of Bhagwati Products Limited (BPL). The outlook is **'Stable'**.

Rationale for rating upgrade

The rating upgrade takes into account the significant turnaround in BPL's operating performance on the back of diversification in the product and customer profile, healthy financial risk profile and healthy order book position. The ratings, further, continue to derive strength from the experience of the management and established track record of operations. Susceptibility of BPL's revenue profile to changing customer preferences and intense competition in the consumer electronic segment (mobile handsets and LED TVs) act as constraints on the ratings. BPL's ability to timely execute its order book and scale up its operations without any adverse impact on its profitability will continue to remain a key rating sensitivity.

About the Company

Bhagwati Products Limited (BPL) was incorporated in October 2002 as "Bhagwati Cookies & Wafers Limited" for manufacturing of bakery products. Later, the name of the company was changed to the current one in March 2003. The overall operations of BPL are currently looked after by Mr. Rajesh Agarwal, Mr. Rahul Sharma, Mr. Vikash Jain, Mr. Sumit Kumar and Mr. Mukesh Gupta. The company is engaged in the manufacturing of LED TVs, mobile phones, air-conditioners (ACs), and various IT hardware products viz. tablets, lithium-ion (LI) batteries, LED TV panels, printed circuit board assemblies (PCBAs), moulding plants for ACs, TV components, mobile accessories (chargers & power banks), etc. The products manufactured by the company are sold in the domestic market, wherein the LED TVs and mobile phones (together comprising ~97% of the revenues in FY21) are sold majorly to Oppo Mobiles India Private Limited and Micromax Informatics Limited (MIL), whereas the balance are sold to other smaller brands in the LED TVs & mobile phones market. On the other hand, over 80-85% of the total purchases are met by way of imports in the form of semi-knocked down (SKD) components and completely-knocked down (CKD) components from China and Hong Kong. The company operates through three manufacturing facilities, one each located in Rudrapur (Uttarakhand) Hyderabad (Telangana), and Bhiwadi (Rajasthan). The said manufacturing facilities together are equipped with an installed capacity of 115.20 lakh pieces of mobile phones, 21 lakh pieces of LED TVs, 3 lakh pieces of LI batteries as on March 31, 2021.

Analytical Approach

Acuité has considered the standalone business & financial risk profiles of BPL to arrive at the ratings.

Key Rating Drivers

Strengths

- **Established track record of operations with experienced management**
  BPL is promoted by Mr. Rajesh Agarwal, Mr. Rahul Sharma, Mr. Sumeet Kumar and Mr. Vikas Jain and Mr.

Mukesh Gupta.. Mr. Rajesh Agarwal (Chairman of BPL), Mr. Rahul Sharma, Mr. Sumeet Kumar and Mr. Vikas Jain are also co-promoters of MIL. The promoters of BPL have background in engineering with an industry experience of more than a decade each in the technology & 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.
Acuité believes that the company shall continue to benefit from the experienced management.

- **Significant turnaround in the operations marked by product & customer diversification coupled with government support in form of incentives & other measures**
  BPL has recorded operating income worth Rs.1010.74 crore in FY21 (Prov.) as against Rs.466.87 crore in FY20, depicting a growth of 118% y-o-y. Its operating margin has also improved to 3.54% in FY21 (Prov.) as against 0.07% in FY20. This turnaround has primarily been on account of diversification efforts undertaken by BPL with its product as well as customer profile. Earlier, Micromax accounted for 90-95% of BPL's overall revenues for FY19 and FY20. This has reduced to ~37% in FY21 (Prov.). Further, the company has also added Oppo Mobiles India Private Limited, TTE Technology India Private Limited, G Mobile Devices Private Limited, Ossify Industries Limited, Acer India Private Limited, Intex Technologies (India) Limited, Intec India Limited, Yadada Communication Private Limited, etc. to its customer mix in FY21. BPL has also diversified its product profile by adding various other products viz. LED TVs, ACs, LI batteries, LED TV panels, PCBAs, molding plants for ACs, TV components, mobile accessories (chargers & power banks), etc.
  Besides this, BPL has also benefitted from the changes in the Government policies for encouraging domestic manufacturing such as production linked incentive scheme (PLIs) for electronics and ban of LED TVs CBUs (completely built units) in FY21.
  Going forward BPL's performance is expected to further improve on the back of a healthy order of ~Rs. 2200 crore out of which it has already executed orders worth Rs.430 crore in FY22 (till August 2021). The higher demand for screen products owing to increased adoption of work-from-home and study-from-home norms is also expected to have a positive impact on BPL's operating performance.
  Acuité believes that BPL's ability to timely execute its order book and scale up its operations while maintaining its profitability will remain a key rating sensitivity.

- **Healthy financial risk profile**
  The financial risk profile of BPL stood healthy marked by healthy tangible net-worth base, comfortable capital structure and moderate debt coverage indicators. The tangible net-worth base stood healthy at Rs.343.58 crore as on March 31, 2021 (Prov.) as against Rs.334.32 crore as on March 31, 2020. Moreover, the capital structure also stood comfortable with an overall gearing of 0.09 times as on March 31, 2021 (Prov.) as against 0.13 times as on March 31, 2020. Furthermore, the overall gearing improved from 0.13 times as on March 31, 2020 to 0.09 times as on March 31, 2021 (Prov.) owing to decrease in debt levels coupled with increase in the tangible net-worth base on the back of accretion of profits. Improvements have also been observed in the debt coverage indicators with improvement in the interest coverage to 8.76 times in FY21 (Prov.) from 0.98 times in FY20, and in DSCR to 1.60 times in FY21 (Prov.) from 0.48 times in FY20, whereas the same improved significantly in FY21 (Prov.) over FY20 owing to a significant improvement in the profitability.
  Acuité believes BPL's capital structure and debt coverage indicators are expected to remain comfortable over the medium term on account of expected improvement in the operating performance.

Weaknesses

- **Susceptibility of the company's revenue profile to change in consumer preferences**
  BPL's revenue profile is linked primarily to the ability of Oppo and Micromax brands to maintain a strong competitive position in India's intensely competitive mobile handset and LED TVs market. Although BPL has newly acquired Oppo as its customer, it contributed to ~45 % of the company's revenues in FY21 (Prov.). Till FY20, Micromax has contributed to 90-95% of its revenues albeit a decline in FY21 (Prov.). Hence, the company's revenue trajectory is linked to the ability of these two companies to continuously develop and introduce newer models at various price points, in light of the ever-changing consumer preferences. The Indian market has witnessed significant turbulence in the past wherein certain players like Nokia and Micromax had to relinquish their leadership positions in the mobile handset market to other players on account of their relative inability to react to technological and market related changes. The advent of other players in the LED TV market like use of recent TV brands etc. have proved to be intensely competitive in terms of features and value. The ability of these companies to continuously churn out newer models with a strong value proposition for the consumer has helped these other companies gain a significant share in

the mobile market at the expense of larger players like Samsung, Sony. Since BPL generates around 80% of its revenues through the sale of Oppo and Micromax products, it has been highly dependent on their market share in the mobile handset market and LED TV market. Further, the ability of these companies to maintain their market share by adapting and reinventing themselves from time-to-time according to the changes in the consumer preference will remain a key monitorable aspect over the near-to-medium term.

- **Intense competition from existing players**
  The mobile handset segment in India is characterized 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 Oppo, Micromax is also gradually venturing into the consumer electronics segment. 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.

Liquidity Position: Adequate

The liquidity profile of BPL stood adequate with efficient working capital management, low dependence on working capital bank borrowings, healthy free cash & bank balance & liquid investments, and moderate current ratio. Moreover, the GCA days also stood moderate at 112 days in FY21 (Prov.) as against 123 days in FY20, whereas the same improved owing to the significant increase in the scale of operations in that year. Given all of the above, the company's dependence on non-fund-based facilities is lower with utilization less than 5-10%, and on fund-based facilities is 30-35% in the last six months ended July 2021. Moreover, the free cash & bank balance stood at Rs.10.19 crore as on March 31, 2021 (Prov.) as against Rs.5.29 crore as on March 31, 2020, whereas the liquid investments stood at Rs.63.07 crore as on March 31, 2021 (Prov.) as against Rs.34.18 crore as on March 31, 2020, thereby implying adequate liquidity position. On the other hand, the current ratio stood moderate at 1.38 times as on March 31, 2021 (Prov.) as against 2.34 times as on March 31, 2020.

Rating Sensitivities

- Slower than expected scale up of operations
- Significant deterioration in the profit margins
- Significant deterioration in the liquidity position or the overall financial risk profile

Material Covenants

None

Outlook: Stable

Acuité believes that BPL will continue to maintain a 'Stable' outlook over the medium term owing to the sustenance of the significant improvement in the operations and the overall financial risk profile witnessed. The outlook may be revised to 'Positive' in case of faster-than-expected increase in the operating performance while maintaining the profitability and efficient management of working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected improvement in operating performance, the overall financial risk profile or the liquidity position.

About the Rated Company - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	1010.74	466.87
Profit after Tax (PAT)	Rs. Cr.	9.06	-6.91
PAT Margin	(%)	0.90	-1.48
Total Debt/Tangible Net Worth	Times	0.09	0.13
PBDIT/Interest	Times	8.76	0.98

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

Not Applicable

Any other information
Not Applicable

Applicable Criteria
- Manufacturing Entities – https://www.acuite.in/view-rating-criteria-59.htm
- Default Recognition – https://www.acuite.in/view-rating-criteria-52.htm
- Application of 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
02-Jul-2020	Cash Credit	Long Term	5.00	ACUITE BBB-/Stable (Downgraded)
	Cash Credit	Long Term	35.00	ACUITE BBB-/Stable (Downgraded)
	Cash Credit	Long Term	2.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	7.73	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short Term	14.00	ACUITE A3 (Downgraded)
	Letter of Credit	Short Term	75.00	ACUITE A3 (Downgraded & Withdrawn)
	Letter of Credit	Short Term	75.00	ACUITE A3 (Downgraded)
	Letter of Credit	Short Term	50.00	ACUITE A3 (Downgraded)
	Proposed Bank Facility	Short Term	261.27	ACUITE A3 (Downgraded)
11-Apr-2019	Cash Credit	Long Term	5.00	ACUITE BBB/Negative (Downgraded)
	Cash Credit	Long Term	35.00	ACUITE BBB/Negative (Downgraded)
	Proposed Bank Facility	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/Foreign Letter of Credit	Short Term	145.00	ACUITE A3+ (Downgraded)
	Inland/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/Foreign Letter of Credit	Short Term	180.00	ACUITE A2+ (Assigned)
	Inland/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

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Punjab National Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB/Stable (Upgraded from ACUITE BBB-)
HDFC Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/Stable (Upgraded from ACUITE BBB-)
HDFC Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A3+ (Upgraded from ACUITE A3)
Punjab National Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A3+ (Upgraded from ACUITE A3)
State Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A3+ (Upgraded from ACUITE A3)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	270.00	ACUITE A3+ (Upgraded from ACUITE A3)

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About Acuité Ratings & Research:
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