

Press Release

Bhagwati Products Limited

September 02, 2022



Rating Reaffirmed & Withdrawn

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---------------------------------------|---------------------|--|--|
| Bank Loan Ratings | 40.00 | ACUITE BBB Reaffirmed & Withdrawn | - |
| Bank Loan Ratings | 410.00 | - | ACUITE A3+ Reaffirmed & Withdrawn |
| Total Outstanding Quantum (Rs. Cr) | 0.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 450.00 | - | - |

Rating Rationale

Acuite has reaffirmed and withdrawn the long term rating at **"ACUITE BBB" (read as ACUITE triple B)** and short term rating at **"ACUITE A3+" (Read as ACUITE A three plus)** on the Rs. 450 Crores bank facilities of Bhagwati Products Limited.

The rating withdrawal is in accordance with Acuite's policy on withdrawal of rating. The rating is being withdrawn on account of request received from the company and NOC received from the banker.

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 (together comprising ~82% of the revenues in FY21), 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

Acuite has considered standalone business and financial risk profiles of BPL to arrive at the

rating.

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.

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.359.98 crore as on March 31, 2022 (Prov.). Moreover, the capital structure also stood comfortable with an overall gearing of 0.09 times as on March 31, 2022 (Prov.) as against 0.09 times as on March 31, 2021, given the increased reliance on own funds to meet the working capital requirements as well as capital expenditures. Moreover, the interest coverage stood healthy at 24.07 times in FY22 (Prov.) as against 6.13 times in FY21, and the DSCR stood strong at 17.56 times in FY22 (Prov.) as against 1.55 times in FY21, whereas the same improved significantly in FY22 (Prov.) over FY21 owing to an improvement in the profitability.

Working Capital Operations

The working capital management of BPL is efficiently managed with the debtor's period of 8 days in FY 22(Provisional). However, the company has registered a net worth of Rs. 359.98 Crores. The creditor days of the company is 39 days. Further the company takes 60 days to manufacture the majority of product. On the other hand, the company used to maintain inventory days around 60 days to 70 days. Hence the company is managing its working capital efficiently even in the light of increasing inventory holding.

Weaknesses

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 One plus, Vivo, Xiaomi, Iqoo, Realme, Tecno, Lava etc. 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.

Rating Sensitivities

- Improvement in revenue and profitability going forward.
- Significant improvement in working capital management of the company resulting into improve liquidity.

Material covenants

None.

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. The working capital management of BPL is efficiently managed with the WC cycle of 51 days in FY22 (Prov.) as against 76 days in FY21, whereas the elongation in the same was due to the elongation in the inventory holding period, which was, however being funded by way of the advances from customers. Company's dependence on non-fund based facilities are in the range of 15% to 20% and fund based utilisation is in the range of 25%-30%. Moreover, the free cash & bank balance stood at Rs.118.92 crore as on March 31, 2022 (Prov.) as against Rs.9.48 crore as on March 31, 2021. On the other hand, the current ratio stood moderate at 1.33 times as on March 31, 2022 (Prov.) as against 1.38 times as on March 31, 2021.

Outlook

Not Applicable.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 22 (Provisional) | FY 21 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income | Rs. Cr. | 1343.16 | 1011.12 |
| PAT | Rs. Cr. | 18.75 | 7.34 |
| PAT Margin | (%) | 1.40 | 0.73 |
| Total Debt/Tangible Net Worth | Times | 0.09 | 0.09 |
| PBDIT/Interest | Times | 24.07 | 6.13 |

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>
- 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

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|--|
| 08 Sep 2021 | Proposed Bank Facility | Short Term | 270.00 | ACUITE A3+ (Upgraded from ACUITE A3) |
| | Letter of Credit | Short Term | 50.00 | ACUITE A3+ (Upgraded from ACUITE A3) |
| | Cash Credit | Long Term | 35.00 | ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable) |
| | Letter of Credit | Short Term | 50.00 | ACUITE A3+ (Upgraded from ACUITE A3) |
| | Cash Credit | Long Term | 5.00 | ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable) |
| | Letter of Credit | Short Term | 40.00 | ACUITE A3+ (Upgraded from ACUITE A3) |
| 02 Jul 2020 | Cash Credit | Long Term | 2.00 | ACUITE BBB- Stable (Assigned) |
| | Term Loan | Long Term | 7.73 | ACUITE BBB- Stable (Assigned) |
| | Proposed Bank Facility | Short Term | 261.27 | ACUITE A3 (Downgraded from ACUITE A3+) |
| | Letter of Credit | Short Term | 50.00 | ACUITE A3 (Downgraded from ACUITE A3+) |
| | Letter of Credit | Short Term | 14.00 | ACUITE A3 (Downgraded from ACUITE A3+) |
| | Cash Credit | Long Term | 35.00 | ACUITE BBB- Stable (Downgraded from ACUITE BBB Negative) |
| | Cash Credit | Long Term | 5.00 | ACUITE BBB- Stable (Downgraded from ACUITE BBB Negative) |
| | Letter of Credit | Short Term | 75.00 | ACUITE A3 (Withdrawn) |
| | Letter of Credit | Short Term | 75.00 | ACUITE A3 (Downgraded from ACUITE A3+) |
| 11 Apr 2019 | Cash Credit | Long Term | 5.00 | ACUITE BBB Negative (Downgraded from ACUITE A- Stable) |
| | Cash Credit | Long Term | 35.00 | ACUITE BBB Negative (Downgraded from ACUITE A- Stable) |
| | Letter of Credit | Short Term | 90.00 | ACUITE A3+ (Downgraded from ACUITE A2+) |
| | Proposed Bank Facility | Short Term | 120.00 | ACUITE A3+ (Downgraded from ACUITE A2+) |
| | Letter of Credit | Short Term | 145.00 | ACUITE A3+ (Downgraded from ACUITE A2+) |
| | Letter of Credit | Short Term | 175.00 | ACUITE A3+ (Downgraded from ACUITE A2+) |
| | Proposed Bank Facility | Long Term | 205.00 | ACUITE BBB Negative (Downgraded from ACUITE A- Stable) |
| | Letter of Credit | Short Term | 75.00 | ACUITE A3+ (Downgraded from ACUITE A2+) |
| | Cash Credit | Long Term | 5.00 | ACUITE A- Stable (Assigned) |
| | Inventory Funding | Long Term | 200.00 | ACUITE A- Stable (Assigned) |
| | Cash Credit | Long Term | 5.00 | ACUITE A- Stable (Assigned) |
| | | Short | | |

| | | | | |
|----------------|------------------|---------------|--------|-----------------------|
| 09 Mar 2018 | Letter of Credit | 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) |
| | Letter of Credit | Short Term | 180.00 | ACUITE A2+ (Assigned) |
| | 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's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|----------------------|----------------|-----------------------------------|------------------|----------------|----------------|-------------------|-------------------------------------|
| HDFC Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE BBB Reaffirmed & Withdrawn |
| Punjab National Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 35.00 | ACUITE BBB Reaffirmed & Withdrawn |
| Punjab National Bank | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 40.00 | ACUITE A3+ Reaffirmed & Withdrawn |
| HDFC Bank Ltd | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 50.00 | ACUITE A3+ Reaffirmed & Withdrawn |
| State Bank of India | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 50.00 | ACUITE A3+ Reaffirmed & Withdrawn |
| Not Applicable | Not Applicable | Proposed Short Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | 270.00 | ACUITE A3+ Reaffirmed & Withdrawn |

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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