

## Press Release

### Bharat Chemical

February 12, 2020

### Rating Upgraded



<b>Total Bank Facilities Rated*</b>	Rs. 18.20 Cr.
<b>Long Term Rating</b>	ACUITE BBB- / Outlook: Stable (Upgraded from ACUITE BB+/Stable)
<b>Short Term Rating</b>	ACUITE A3+ (Upgraded from ACUITE A4+)

\* Refer Annexure for details

### Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short-term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.18.20 crore bank facilities of BHARAT CHEMICAL (BC). The outlook is '**Stable**'.

The rating revision is in view of improvement in business risk profile as reflected with improvement in revenues and profitability margins. Further, the company is able to scale up and acquire a large customer base.

BC was established in 2002 as a proprietorship firm located at Gandhidham (Gujarat). The firm is promoted by Mr. Dilip Bhanushali. It is engaged in supplying of bunker fuel and marine gas oil and also trading of chemicals. It operates barge with capacities ranging from 300MT 2000 MT carrying capacity and can handle Fuel Oil as well as Marine Gas Oil (High Flash High Speed Diesel). The firm offers products at all major ports in India with the support from oil majors like Indian Oil Corporation Limited, Bharat Petroleum Corporation Limited and Hindustan Petroleum Corporation Limited.

### Analytical Approach

Acuité has considered the standalone business and financial risk profiles of BC to arrive at this rating.

### Key Rating Drivers

#### Strengths

#### • Experienced management

BC was established in 2002 and is headed by Mr. Dilip Bhanushali. The firm has established track record of nearly two decades in the same line of business. The firm also benefits from its experienced promoter as Mr. Dilip Bhanushali possesses more than a decade of experience in trading of energy products and industrial distribution of steam coal.

Acuité believes that the long track record of operations and extensive experience of the management have helped the company maintain long term relations with customers and suppliers.

#### • Improving revenue and profitability

The firm's revenue grew at a CAGR of ~29.08 percent over the last three years through 2017-19. BC showed healthy growth in revenues marked by operating income of Rs.278.93 crore in FY2019 as against Rs.178.62 crore in FY2018 and Rs.167.40 crore in FY2017. The significant growth in revenue in FY2019 is on account of one healthy order of Rs.60.00 crore being executed in that year. However, even after the exclusion of that order, the performance of the company surpassed Acuité projections. Currently, the firm has booked revenue of Rs.188 crores for the period April to January, 2020.

BC's operating margins stood at 2.91 percent in FY2019 as against 2.23 percent in FY2018 and 2.54 percent in FY2017. Further, the company reported Profit after Tax (PAT) margins of 1.77 percent in FY2019 as against 0.93 percent in FY2018 and 1.69 percent in FY2017. Acuité believes that the firm's ability to sustain growth in its revenues while improving its profitability would be key rating sensitivity.

#### • Efficient working capital operations

BC has efficiently managed its working capital as reflected in Gross Current Assets (GCA) of 23 days in FY2019 as against 39 days in FY2018 and 36 days in FY2017. The firm does not maintain inventory as it is order backed. Collection period stood healthy at 22 days in FY2019 as against 35 days in FY2018. This is on account of healthy realization from customers as receivables cycle is 20-30 days. Acuite expects the working capital management to remain efficient over the medium term.

### Weaknesses

#### • Average financial risk profile

The financial risk profile has remained average marked by tangible net worth of Rs.10.27 crore as on 31 March, 2019 as against Rs.6.87 crore as on 31 March, 2018. The gearing (debt-to-equity) stood at 1.36 times as on 31 March, 2019 as against 2.68 times as on 31 March, 2018. The total debt outstanding of Rs. 13.98 crore as on 31 March, 2019 consist of long term borrowing of Rs.4.10 crore, unsecured loans of Rs.6.04 crore and working capital borrowing of Rs.3.84 crore. The interest coverage ratio stood healthy at 5.38 times for FY2019 as against 2.90 times in FY2018. Total outside liabilities to tangible net worth (TOL/TNW) improved to 1.59 times as on 31 March, 2019 as against 3.11 times as on 31 March, 2018. The net cash accruals stood at Rs. 6.68 crore in FY2019 as against the repayment obligation of Rs. 1.47 crore in FY2018.

Acuite expects the firm to maintain its financial risk profile in the absence of major debt funded capex plan.

#### • Trading nature of business

The firm operated on low margins on account of trading nature of operations. Challenges faced by BC are that the company always have to settle on a fixed percentage of margin and further which leads to limited profit. Further, intense competition puts pressure on the pricing power of BC.

### Rating Sensitivities

- Stretch in GCA days to around 100-150 days.
- Substantial improvement in scale of operation (~Rs. 310.00-320.00 crore), while maintaining profitability margin of around 2.90-3.20 per cent over the medium term.

### Material Covenants

None

### Liquidity position: Adequate

The firm has adequate liquidity marked by net cash accruals of Rs.6.68 crore against the debt repayment of Rs.1.47 for FY2018. The cash accruals of the firm are estimated to remain in the range of Rs.5.90 to Rs.7.84 crore during 2020-22 against Rs.1.03-1.55 crore repayment obligation for the same period. The firm maintains cash and bank balances of Rs. 0.01 crore as on March 31, 2019. The current ratio stood healthy at 2.45 times as on March 31, 2019. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of no capex.

### Outlook: Stable

Acuite believes that BC will maintain a 'Stable' outlook and benefit over the medium term from its experienced management, improving revenue and profitability and efficient working capital operations. The outlook may be revised to 'Positive' if the company reports higher than expected revenues and profitability margins and improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and profitability or elongation in the working capital cycle leading to deterioration in the financial risk profile.

### About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	278.93	178.62
PAT	Rs. Cr.	8.12	3.98
PAT Margin	(%)	4.95	1.66
Total Debt/Tangible Net Worth	Times	1.36	2.68
PBDIT/Interest	Times	5.38	2.90

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

Not Applicable

**Any other information**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

**Note on complexity levels of the rated instrument**
<https://www.acuite.in/criteria-complexity-levels.htm>
**Rating History (Upto last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
21-Aug-2019	Term Loan	Long Term	5.70	ACUITE BB+ (Indicative)
	Letter of Credit	Short Term	12.00	ACUITE A4+ (Indicative)
	Proposed Bank Facility	Short Term	0.50	ACUITE A4+ (Indicative)
26-Jul-2018	Term Loan	Long Term	5.70	ACUITE BB+ /Stable (Assigned)
	Buyers Credit	Short Term	12.00	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Short Term	0.50	ACUITE A4+ (Assigned)

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	31-Oct-2017	Not Applicable	31-Oct-2022	3.03	ACUITE BBB- /Stable (Upgraded from ACUITE BB+/Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.00*	ACUITE A3+ (Upgraded from ACUITE A4+)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.17	ACUITE A3+ (Upgraded from ACUITE A4+)

\*Sublimit – Cash credit of Rs.8.00 crore of Letter of Credit

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**About Acuité Ratings & Research:**

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