

Press Release

BBM Acoustic India Private Limited

January 22, 2020

Rating Upgraded



Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BBB (CE**) / Outlook: Stable (Upgraded from ACUITE BBB- /Stable)
Short Term Rating	ACUITE A3+ (CE**) (Upgraded from ACUITE A3)

* Refer Annexure for details

**Credit Enhancement in the form of Letter of Comfort from parent company Muller BBM Holding AG

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB (CE)**' (read as **ACUITE triple B Credit Enhancement**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating to '**ACUITE A3+ (CE)**' (read as **ACUITE A three plus Credit Enhancement**) from '**ACUITE A3**' (read as **ACUITE A three**) to the Rs.25.00 crore bank facilities of BBM Acoustic India Private Limited (BAPL). The outlook is 'Stable'.

The rating revision is in view of significant improvement in business and financial risk profile of BAPL. The company has achieved break even in FY2019. Operating and PAT margins improved to 16.23 percent and 7.59 percent respectively in FY2019 as against negative 2.65 percent and negative 13.25 percent respectively in FY2018. Debt to EBITDA improved to 1.17 times in FY2019 as against negative 30.55 times in the previous year. Gearing improved to 0.41 times as on March 31, 2019 from 17.58 times as on March 31, 2018. ICR improved to 5.00 times in FY2019 against negative 0.40 times in FY2018. Acuite believes that the company will be able to sustain the business and financial risk profile on account of consistent support from the group in form of equity infusion or unsecured loans.

Pune based BAPL is a 100 per cent subsidiary of the Muller BBM Holding AG (MBBM group). The company is promoted and managed by Dr. Peter Romanow, Mr. Steffen Launtenbach and Mr. Arunabh Tamalkumar Mazumdar. BAPL is engaged in design, engineering, and manufacturing of acoustic products like silencers, exhaust silencer, steel turbine enclosure, gas turbine enclosure and many more. The company has its manufacturing facility located at Pune.

Standalone (Unsupported) Rating: ACUITE BBB-/Stable/ACUITE A3

Analytical Approach

Acuite has taken a standalone business and financial risk profile of the company to evaluate the credit profile of BAPL and subsequently factored in the benefits derived from the strong business linkages and financial support from the parent company MBBM Group.

Key Rating Drivers

Strengths

• Experienced management

BAPL is a 100 per cent subsidiary of MBBM Group, a German-based company. BAPL is engaged in the Design, Engineering, Manufacturing and supply of Flue Gas Exhaust Silencers, Blow off Silencers, Splitter Silencers for Gas Acoustic Enclosures for Gas Turbines, Steam Turbines, Diesel Engines BFP, Compressors, and Presses among other products. Muller BBM Group has 28 subsidiaries majorly in Germany and the group has worldwide presence over 5 decades in this line of business. BAPL is promoted and managed by Dr. Peter Romanow, Mr. Steffen Lautenbach and Mr. Arunabh Tamalkumar Mazumdar. Mr. Arunabh Tamalkumar Mazumdar looks after the project execution and targeting new customers. The company reported CAGR of 33.59 percent over the last three year through FY2017-19. BAPL booked revenue of Rs.37.16 crores for the period April to November, 2019. Further, the company has unexecuted order book of Rs. ~Rs.48.50 crore in hand.

- **Facilities partly secured by SBLC from UniCredit Bank AG**

The Axis bank facilities to BAPL comprises fund-based facilities of Rs.16.00 crore and non-fund based facilities of Rs.9.00 crore which is secured by a SBLC from UniCredit Bank AG of Rs.9.02 cr. The SBLCs are renewed on an annual basis.

- **Support from parent company**

BAPL is a wholly owned subsidiary of MBBM through the intermediary parent company-BBM Akustik Technologie GmbH. It has received letter of comfort from Parent company BBM Akustik Technologie GmbH for the entire credit limits sanctioned from Axis Bank. The Parent company, BBM Akustik Technologie GmbH has infused unsecured loans and the same is converted into equity amounting to the tune of ~Rs. 18.87 crore as on 22nd October, 2018 thereby improving the capital structure of the BAPL. However, the parent company Muller BBM Holding AG has incurred a loss in consolidated earnings due to slump in turnover in their business segment of plant engineering for CY2018. The major reason was due to significant decline in demand in the gas turbine market in US subsidiary.

- **Moderate financial risk profile**

The financial risk profile BAPL is marked by moderate net worth, gearing and debt protection measures. The net worth stood at Rs. 26.36 crore as on 31 March, 2019 as against Rs. 1.82 crore as on 31 March, 2018. The improvement in net worth is on account of unsecured loans (infused by group company MBBM group) amounting to Rs. 18.58 crores which are converted into equity in October, 2018. The gearing (debt to equity) improved to 0.41 times as on 31 March, 2019 against 17.58 times as on 31 March, 2018. Total outstanding liabilities to total net worth (TOL/TNW) improved to 1.05 times as on 31 March, 2019 against 30.01 times in the previous year. Net cash accruals to total debt (NCA/TD) improved to 0.68 times as on March 31, 2019 as against negative 0.11 times as on March 31, 2018. Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) improved to 5.00 and 2.56 times respectively as on 31 March, 2019.

Acuite believes that the financial risk profile of MDPL will continue to remain healthy over the medium term due to infusion of capital and sound debt protection measures.

Weaknesses

- **Working capital intensive operations**

BAPL's working capital operations are intensive marked by Gross Current Assets (GCA) of 226 days in FY2019 and 281 days in FY2018. The inventory holding stood at 85 days in FY2019 as against 82 days in FY2018. The collection period improved to 55 days in FY2019 as against 100 days in FY2018. Further, working capital is supported by high creditors of 112 days in FY2019 as against 163 days in FY2018.

Acuite believes that the ability of the company to efficiently manage its working capital requirements will remain key rating sensitivity.

- **Foreign exchange fluctuation risk**

The profitability margins of the company are exposed to foreign exchange fluctuation risk as all its liabilities are considered in Euros wherein the Euro rates are highly volatile. Any adverse effect of the foreign exchange fluctuation rates will directly impact the profitability margins of the company.

Rating Sensitivity

- Substantial reduction in GCA days to around 150-170 days.
- Substantial improvement in scale of operation (~Rs. 85.00-95.00 crore), while maintaining profitability margin of around 16.5-17.5 per cent over the medium term.

Material Covenants

None

Liquidity position: Adequate

BAPL has adequate liquidity marked by net cash accruals to its maturing debt obligations. The company generated net cash accruals of Rs.7.30 in FY2019, while its maturing debt obligations were in the range of Rs.1.74 crore over the same period. The cash accruals of the company are estimated to remain around Rs.7.4-9.2 crore during 2020-22 while its repayment obligations are expected to be Rs.1.7 over the same period. The company's operations are comfortable working capital as marked

by gross current asset (GCA) days of 59 in FY2018. The company maintains cash and bank balances of Rs. 1.61 crore as on March 31, 2019. The current ratio stood moderate at 1.56 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to improve over the medium term on account of improvement in operations.

Outlook: Stable

Acuite expects BAPL to maintain its stable credit risk profile backed by the promoter's strong experience in the Acoustic industrial structure and healthy order book. The outlook may be revised to 'Positive' in case there is sustained improvement in the BAPL's financial and business risk profile. Conversely, the outlook may be revised to 'Negative' in case the company reports lower than anticipated profitability, or in case of elongation of working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	59.61	50.20
PAT	Rs. Cr.	4.53	-6.65
PAT Margin	(%)	16.23	-2.65
Total Debt/Tangible Net Worth	Times	0.41	17.58
PBDIT/Interest	Times	5.00	-0.40

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Criteria for Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.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
08-Feb-2019	Cash Credit	Long Term	12.00	ACUITE BBB- /Stable (Assigned)
	Term Loan	Long Term	2.00	ACUITE BBB- /Stable (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	9.00	ACUITE A3 (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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00*	ACUITE BBB (CE) /Stable (Upgraded from ACUITE BBB- /Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB (CE) /Stable

					(Upgraded from ACUITE BBB- /Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3+ (CE) (Upgraded from ACUITE A3)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3+ (CE) (Upgraded from ACUITE A3)

*Sublimit – EPC/PCFC/PSC/PSCFC of Rs.4.00 crore of Cash Credit

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About Acuité Ratings & Research:

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