

Press Release

BBM Acoustic India Private Limited

April 21, 2021



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs.25.00 crore bank facilities of BBM Acoustic India Pvt. Ltd. The outlook is '**Stable**'.

The rating reaffirmation is on account of improvement in financial risk profile of the company along with improvement in business profile. The company has witnessed an improvement in order book position, which stood at over Rs.72 crore as on March 31, 2021, thereby offering healthy revenue visibility in the near term. Although, the company's revenue fell by 2.71per cent in FY20 due to Covid-19-led disruptions. Despite a contraction, the operating margin stood healthy at 13.94per cent in FY20. The company has comfortable gearing and coverage indicators marked by debt to equity ratio of 0.23 times as on March 31, 2020 and interest coverage ratio of 8.53 times for FY20, respectively. DSCR too improved to 2.90 times in FY20 from 2.56 times in FY19. Further, the company's operating performance has also improved during January-December 2020 despite initial Covid-19-led challenges. The ratings, however, are constrained by deterioration in working capital intensity and risk of fluctuation in foreign exchange rate and key raw material prices. Also, security in the form of standby letter of credit (SBLC) from the parent company's banker is not available after March 2021 and credit enhancement in the form of letter of comfort from the parent is unlikely to continue going ahead.

About the company

Incorporated in 2005, Pune-based BBM Acoustic India Pvt. Ltd. (BAPL) is a 100 per cent subsidiary of BBM Akustic Technologie GmbH, Germany and ultimate subsidiary of the Muller BBM Holding AG (MBBM group). BAPL is engaged in designing, engineering, and manufacturing of acoustic products like silencers, exhaust silencer, steel turbine enclosure, gas turbine enclosure, etc. The company has its manufacturing facility at Pune.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management and established track record of operations**

BAPL, a 100per cent subsidiary of BBM Akustic Technologie GmbH and ultimate subsidiary of MBBM Group, is engaged in designing, engineering, manufacturing and supply of acoustic equipment such as Flue Gas Exhaust Silencers, Blow off Silencers, Splitter Silencers for Gas Acoustic Enclosures for Gas Turbines, etc. The company mainly caters to thermal power plants.

MBBM Group, with its 28 subsidiaries majorly in Germany, has worldwide presence of over 5 decades in the business of acoustic. Mr. Arunabh Mazumdar, director of BAPL and who is associated with

BAPL since inception and who looks after the project execution and targeting new customers, has over 3 decades of experience.

The company has grown at a compounded annual growth rate (CAGR) of over 20per cent during the last three years ending March 31, 2020. The company has unexecuted order book of over Rs.72 crore as on March 31, 2021. Although, FY20 revenue was down by 2.71per cent due to Covid-19-led nation-wide lockdown during the last few days of March 2020.

In CY2019, the ultimate holding company, MBBM Group recorded net profit against net losses in CY2018. This was on the back of improvement in overall operating performance led by higher revenue.

- **Improved operating performance**

Though BAPL's FY20 operating performance was negatively impacted by Covid-19-led disruptions, the company is likely to have witnessed improved operating performance in FY21 despite Covid-19-led challenges. Acuite expects BAPL to report 19-20per cent growth in operating revenue in FY21 and nearly 2 times jump in net profit.

The company's revenue during January-December 2020 stood at Rs.72.53 crore and its EBITDA margin was 23.01per cent. This is in comparison to Rs.57.99 crore of revenue and 13.94per cent of EBITDA margin reported in FY20. Higher work orders and improved client/order mix propelled the company's performance in FY21.

- **Moderate financial risk profile**

BAPL has moderate financial risk profile marked by rise in net worth, strong gearing level and improved debt-protection matrix. The company's net worth rose to Rs.32.30 crore as on March 31, 2020 from Rs.26.36 crore as on March 31, 2019.

Gearing level (debt to equity ratio) of the company improved to 0.23 times as on March 31, 2020 from 0.41 times as on March 31, 2019. Besides rise in net worth, lower debt levels supported BAPL's gearing level. Total debt of BAPL, as on March 31, 2020 stood at Rs.7.52 crore, comprising long-term debt of Rs.4.17 crore and short-term debt of Rs.3.36 crore. As on March 31, 2020, TOL/TNW of the company remained almost stagnant at the year-ago level of one. Going ahead, the company's debt to equity ratio is expected improve further to around 0.10 times over a medium term, provided no significant debt-funded capex.

Interest coverage ratio of the company, in FY20 stood at 8.53 times compared to 5 times a year ago. This was mainly driven by lower interest expenses. DSCR, in FY20 stood at 2.90 times. Acuite believes the company's debt protection matrix to improve further with ICR standing above 12 times and DSCR above 4 times during FY21-FY23. This would be on the back of an expected improvement in operating performance of the company.

Weaknesses

- **Working capital intensive operations**

A_BAPL has high working capital intensity with its gross current asset (GCA) days standing above 220 in the last three years ending March 31, 2020. GCA days for FY20 stood at 285 compared to 226 for FY19. This was mainly due to high inventory levels led by Covid-19-led disruptions during the last few days of March 2020. Inventory days almost doubled to 161 for FY20 compared to the year-ago level. Debtor days stood at 65 for FY20 and creditor days were 136. Going ahead, Acuite believes that BAPL's GCA days to remain around 255 to 270 days during FY21-FY23.

- **Risk of fluctuation in foreign exchange and raw material prices**

The profitability of BAPL is susceptible to fluctuation in prices of key raw material, i.e. steel and in foreign exchange. Despite over 65per cent of revenue coming from export business, the company has not availed any foreign exchange hedging instrument. Thus, any adverse movement in foreign exchange rate will directly impact the profitability of the company. Given the pricing of orders is fixed in advance, there is almost no comfort to pass on any sudden rise in raw material prices.

Rating Sensitivities

- Substantial improvement in scale of operations, while maintaining operating margin upward of 16.5 per cent over the medium term.
- Elongation of working capital cycle

Material Covenants

No major covenants

Liquidity Position – Adequate

BAPL has adequate liquidity marked by sufficient net cash accruals to its maturing debt obligations. The company generated net cash accruals of Rs.7.72 crore for FY20, while its maturing debt obligations were Rs.2.00 crore during the same period. The cash accruals of the company are estimated to remain around Rs.11.25-12.46 crore during FY21-FY22, while its repayment obligations are expected to be around Rs.2.12 crore over the same period.

Further, despite working capital intensive operations, the company's fund-based bank limit utilization stood moderate at ~47 per cent during the last six months through February 2021. The company maintains cash and bank balances of Rs.2.28 crore as on March 31, 2020. The current ratio stood moderate at 1.43 times as on March 31, 2020.

Acuité believes that the liquidity of the company is likely to improve over the medium term with unlikely significant term-debt obligations and on account of improvement in operating performance.

Outlook: Stable

Acuité expects BAPL would maintain 'Stable' outlook backed by the promoter's strong experience in the acoustic business and higher order book. The outlook may be revised to 'Positive' in case there is sustained improvement in the BAPL's financial and business risk profiles. 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	57.99	59.61
PAT	Rs. Cr.	5.19	4.53
PAT Margin	(%)	8.95	7.59
Total Debt/Tangible Net Worth	Times	0.23	0.41
PBDIT/Interest	Times	8.53	5.00

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

None

Any other information

Not applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Criteria For Group And Parent Support - <https://www.acuite.in/view-rating-criteria-47.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
22-Jan-2020	Cash Credit	Long Term	10.00	ACUITE BBB (CE) /Stable

				(Upgraded)
	Term Loan	Long Term	6.00	ACUITE BBB (CE) /Stable (Upgraded)
	Letter of Credit	Short Term	1.00	ACUITE A3+ (CE) (Upgraded)
	Bank Guarantee	Short Term	8.00	ACUITE A3+ (CE) (Upgraded)
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/ Stable (Reaffirmed)
Term Loan	Not Available	Not Available	31-Mar-2022	2.00	ACUITE BBB/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	13.00**	ACUITE A3+ (Reaffirmed)

*Includes EPC/PCFC sub-limit of Rs.6.00 crore

**Includes LC sub-limit of Rs.1.00 crore

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

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