

Press Release

Bremels Rubber Industries Private Limited

March 25, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 19.00 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B-**' (read as **ACUITE B minus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 19.00 crore bank facilities of Bremels Rubber Industries Private Limited (BRPL). The outlook is '**Stable**'.

Karnataka based, BRPL was incorporated in 1971 by Late Mr. Bhaskar R Shetty. Currently, the second generation entrepreneurs, Mr. Nischith B Shetty and Mr. Adith B Shetty are the Directors and managing the company. The company is engaged in manufacturing tyre retreads used for retreading worn-out tyres of heavy vehicles. The company also manufactures solid tyres for forklifts.

Analytical Approach

Acuite has considered standalone business and financial risk profile of BRPL to arrive at the rating.

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

BRPL was incorporated in 1971, thus the company has an operational track record of around five decades in tyre industry. The second generation of Shetty family, Mr. Nischith B Shetty (Managing Director) and Mr. Adith B Shetty (Director) have an experience of over two decades in the same line of business. The long track record of operations and experience of management has helped the company develop healthy relationships with its customers and suppliers. Acuite believes that BRPL will sustain its existing business profile on the back of established track record of operations and experienced management.

Weaknesses

- Declining profitability**

The company has shown declining trend in operating profitability during the period FY2016 to FY2018 under the study. The company has booked operating loss of Rs.4.22 crore in FY2018 against operating profit of Rs.1.69 crore in FY2017 and Rs.1.79 crore in FY2016. The profitability was impacted mainly due to continuous cost pressures and loss of major UK based customer resulting in delay in project execution. Further, the company has booked net loss of Rs. 6.55 crore in FY2018 as against net profit of Rs. 0.07 crore in FY2017. This is mainly due to increased interest cost due to delays in debt repayment.

- Working capital intensive operations**

The company's working capital operations are intensive marked by Gross Current Assets (GCA) of 222 days for FY2018 as against 251 days in the previous year. Debtors stood high at 107 days for FY2018 as against 111 days for FY2017. Inventory level stood low at 23 days for FY2018 as against 50 days for FY2017. However, the average bank limit utilisation stood high at 96.65 percent for the past six months ending February 2019.

- Project execution and offtake risk**

The ongoing project of BRPL in SEZ zone of Padubidri in Udupi district is expected to be completed by April 2019. This project was delayed earlier due to loss of one UK based customer, but now the project is almost completed. The operations are likely to commence from May 2019. The project is exposed to

moderate execution risk which is significantly mitigated by promoters' experience. From an offtake stand point, BRPL will be exposed to offtake risk in the initial stages as it will face competitive pressures from other existing well entrenched players operating in the region. The revenue pick up of the project is expected to be gradual. Acuite believes that BRPL's credit performance over the medium term will be exposed to the moderate execution risk and its ability to generate cash flows commensurate with its debt servicing obligations will be critical.

Liquidity Position

BRPL has stretched liquidity marked by decline in net cash accruals in FY2018. The company generated negative cash accruals of Rs. 6.08 crore for FY2018 as against Rs. 0.65 crore for FY2017. The company has working capital intensive operations as marked by high GCA days of 222 days for FY2018. This has led to higher reliance on working capital borrowings, the average cash credit utilization stood at 96.65 percent during the last six months period ended February 2019. The company maintains unencumbered cash and bank balances of Rs. 2.07 crore as on March 31, 2018. The current ratio stood low at 0.39 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of significant losses registered by the company in FY2018.

Outlook: Stable

Acuite believes that BRPL will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability while improving its liquidity position and exhibits an ability to generate cash flows to commensurate its debt. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability affecting its debt servicing ability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle or delay in commencement of commercial operations.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	26.09	32.26	28.03
EBITDA	Rs. Cr.	(4.22)	1.69	1.79
PAT	Rs. Cr.	(6.55)	0.07	0.34
EBITDA Margin	(%)	(16.18)	5.23	6.38
PAT Margin	(%)	(25.09)	0.20	1.20
ROCE	(%)	(15.64)	6.14	12.22
Total Debt/Tangible Net Worth	Times	(90.62)	3.96	3.65
PBDIT/Interest	Times	(1.75)	1.53	1.60
Total Debt/PBDIT	Times	(6.42)	10.29	9.91
Gross Current Assets (Days)	Days	222	251	276

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

CRISIL, vide its press release dated February 20, 2019 had denoted the rating of Bremels Rubber Industries Private Limited as 'CRISIL D; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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)

Not Applicable

***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	9.00*	ACUITE B- / Stable
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4

* Sublimit of cash credit includes Rs. 4.00 crore of PC/PCFC

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About Acuite Ratings & Research:

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