

Press Release

Bajaj Capital Ventures Private Limited

October 09, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs.40.00 Cr.
Short Term Rating	ACUITE A2+ (CE)

* Refer Annexure for details

Rating Rationale

Acuité has assigned short-term rating of '**ACUITE A2+ (CE)**' (**read as ACUITE A two plus (Credit Enhancement)**) on the Rs. 40.00 crore bank facilities of Bajaj Capital Ventures Private Limited (BCPL). The bank facilities are secured by pledge of shares of Bajaj Consumer Care Limited.

About the Borrower- Bajaj Capital Ventures Private Limited

Bajaj Capital Ventures Private Limited (BCPL), incorporated in 1994, is a part of Shishir Bajaj group of companies. BCPL owns a property in Nariman Point, Mumbai, which is given on lease. At present 99.99 per cent of shares of BCPL are held by Mr. Shishir Bajaj, jointly with Mrs. Minakshi Bajaj, jointly with Mr. Kushagra Bajaj.

About the Corporate Guarantor – Bajaj Resources Limited (BRL)

BRL is an investing company of the promoter family. It has been listed as a promoter entity as per the disclosures on the stock exchanges. As on 30 June 2019, BRL held ~99.83 per cent of the total promoter shareholding of BCCL. The rated bank facilities are secured by the pledge of BCCL's shares held by BRL and corporate guarantee of BRL.

About Bajaj Consumer Care Limited

Bajaj Consumer Care Limited (BCCL) is a part of Shishir Bajaj Group of companies (SBG). SBG has interests in Sugar (Bajaj Hindustan Sugar Limited), Consumer Goods (Bajaj Consumer Care Limited), Power Generation (Lalitpur Power Generation Company Limited & Bajaj Energy Limited) and Infrastructure Development (Bajaj Infrastructure Development Company Limited). BCCL is one of the leading player in the hair oil category with brands such as Bajaj Almond Drops Hair oil, Bajaj Brahmi Amla hair oil, Bajaj Amla hair oil and Bajaj Jasmine hair oil among others.

Standalone (Unsupported) Rating

ACUITE A4

Analytical Approach

Acuité has considered the standalone business and financial risk profile of BCPL and has factored in support of the promoters of BCCL by way of pledge of shares of BCCL and unconditional and irrevocable corporate guarantee of BRL to arrive at the rating.

Key Rating Drivers

Strengths

• Rating driven by pledge of shares of Bajaj Consumer Care Limited (BCCL)

The rated bank facilities of BCPL are secured by way of pledge equity shares of BCCL held by Bajaj Resources Limited (BRL). The pledge of shares shall provide a security cover of 2.50 times during the entire tenor of the facility. Apart from the asset coverage, the sanction terms also stipulates other covenants such as the timelines for top up in case of shortfall in collateral cover below 2.50 times, ceiling on the maximum amount of pledge in respect of promoter holding etc. Further, BRL has also extended unconditional and irrevocable guarantee for BCPL.

BCCL, one of the flagship companies of the Shishir Bajaj group was incorporated in 2006. The company is one of the leading player in the Hair oil category with brands like Bajaj Almond Drops hair oil, Bajaj Brahmi Amla hair oil, Bajaj Amla hair oil and Bajaj Jasmine hair oil and also markets oral care products under the brand name Bajaj Red/Kala Dant Manjan. BCCL reported operating income of Rs. 918.48 crore and net profit of Rs. 221.59 crore for FY2019. The net worth of BCCL stood at Rs. 424.06 crore and debt-to-equity at 0.06 times as on March 31, 2019. The total market capitalisation stood at Rs.3,905.80 crore as on August 19,

2019. Currently, the promoter group owns ~60.02 per cent stake in BCCL as on 30 June 2019. Out of the total promoter shareholding, ~39.28 per cent of the shareholding is unencumbered as on 30 June 2019. As informed by the management, the pledge based borrowings across promoter group stood at Rs. 641.25 crore as on August 19, 2019.

Further, the rating also factors in expectation of continuous support by the Shishir Bajaj group for timely servicing of the debt obligations to the company. Since, the operational cash flows of BCPL are currently inadequate to service its debt obligation; the continuous support from the promoters will be a key rating sensitivity factor. The rating also factors in the adherence to the security cover against pledge of shares to be maintained at all times.

Acuité believes that the promoters of BCCL will continue to support the debt servicing commitments of BCPL. The financial flexibility of the promoters (in terms of value of unencumbered shares in BCCL viz-a-viz pledge based borrowings) will be a key credit monitorable.

- **Corporate Guarantee from Bajaj Resources Limited**

The rated bank facilities of BCPL are supported by corporate guarantee of BRL. BRL by virtue of its significant holding of 99.83 per cent stake in BCCL has a healthy revenue profile through dividend flows. BRL has been able to generate robust accruals of ~Rs. 78.00 crore in FY2019 (Provisional) primarily on the back of these dividend flows. BRL does not have any debt outstanding debt as on 31 March, 2019 (Provisional). BRL's financial flexibility is derived from the value of its unencumbered shares in BCCL viz-a-viz its borrowings and other contingent exposures.

Acuité believes that BRL will continue to generate robust cash flows from its investments in BCCL. Since, the revenues of BRL are highly dependent on BCCL's performance and dividend policy, the financial performance and position of BCCL will be a key credit monitorable.

Weaknesses

- **Market Risk arising from adverse movement in stock prices**

BCPL is presently a borrowing entity for the promoter group with no major operations. It is mainly dependent on promoter infusion/ refinancing for repayment of its debt obligations. The sanction loan of Rs. 40.00 crore is for the period of one year with repayment falling due in March and April 2020. Going ahead, BCPL is not expected to have any major revenues streams and hence, it will be dependent on the timely infusion/refinancing by the promoters to support repayment of this loan.

The rating is based on pledge of shares of BCCL. As per the sanctioned terms, the borrower has to maintain minimum asset coverage between 2.50 times of the facility amount. The ability of the promoters to maintain the share pledge asset coverage is central to the rating. Since the stock market is prone to volatility, occurrence of events such as slowdown in FII flows, sharp depreciation in domestic currency, political events, and other such macroeconomic events, could cause a decline in stock prices. Additionally, the company specific factors such as lower-than-expected performance, news regarding promoter stake sell can also influence movements in stock prices. Any sharp and continuous decline in share prices could potentially lead to challenges in adhering to the covenants.

The total borrowings by pledge of promoter shares of BCCL as on 19 August, 2019 stood at Rs. 641.25 crore. Acuité observes that major part of the pledge-based borrowings by the promoters are falling due for repayment in the first half of CY2020. The environment for promoter pledge based borrowings has become increasingly challenging mainly for two reasons; firstly, NBFCs (who have been active players in offering these products) have been facing challenges on their funding side post IL&FS crisis. Secondly, the mutual funds (who also have been active recently) are likely to adopt an extremely cautious approach to such products going forward in view of the increased regulatory scrutiny towards such exposures. Hence, the overall environment for refinancing is expected to be increasingly difficult. The promoters are mooting a divestment of their stake in their energy ventures to raise funds for deleveraging their pledge based borrowings. Acuité believes that the timing and the magnitude of these disinvestments will be critical for the deleveraging.

Liquidity position

BCPL's liquidity will be driven by support from the promoter group of BCCL. Since BCPL's revenue streams are expected to be subdued, timely support from the group for repayment of the loan or the company's ability to refinance the loan will be a key rating sensitivity factor.

Rating Sensitivities

- Timely arrangement of funds by the promoters for repayment of the borrowings backed by pledge of promoter shares of BCCL
- Sharp and continuous decline in share price of BCCL

Material Covenants

- Total pledge of Promoter's Shareholding after pledge being offered to IFCI Limited should not be more than 65 percent. Post sanction, if additional shares are proposed to be pledged beyond 65 percent, by the promoters to raise funds, prior NOC Shall be obtained from IFCI.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	0.80	0.99	0.91
EBITDA	Rs. Cr.	(1.09)	0.60	0.63
PAT	Rs. Cr.	(11.62)	(5.08)	(7.08)
EBITDA Margin	(%)	(136.75)	61.00	68.98
PAT Margin	(%)	(1,455.79)	(515.76)	(777.73)
ROCE	(%)	(0.48)	3.33	0.98
Total Debt/Tangible Net Worth	Times	2.38	1.44	1.09
PBDIT/Interest	Times	(0.06)	0.53	0.21
Total Debt/PBDIT	Times	(231.97)	18.24	42.73
Gross Current Assets (Days)	Days	19,190	3,206	590

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-17.htm>
- Entities in Service Sector - <http://acuite.in/view-rating-criteria-8.htm>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.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. Crore)	Ratings/Outlook
Term loans	01-04-2019	11.00 %	Rs.16 crore- 16-03-2020 Rs.24 crore- 16-04-2020	40.00	ACUITE A2+ (CE)

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About Acuité Ratings & Research:

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