

Press Release

Bhagwati Recycling Private Limited

February 28, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	22.00	ACUITE BB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	22.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating at '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs 22.00 crore bank facilities of Bhagwati Recycling Private Limited (BRPL). The outlook is '**Stable**'.

Rationale for reaffirmation

The rating is reaffirmed basis the stable operating performance of the group. The operating income improved to Rs. 54.99 Cr in FY2022 as against Rs. 41.14 Cr in FY2021. The operating profitability of the group stood at 7.27 percent in FY2022 as against 4.29 percent in FY2021. However, the group recorded net losses in FY2022 driven by increased depreciation and interest costs. The group enhanced its installed production capacity to 600 MT from 150 MT from November, 2021 onwards. The rating is constrained by the working capital intensive operations, below-average financial risk profile and stretched liquidity position of the group.

About Company

Bhagwati Recycling Private Limited (BRPL) is engaged in manufacturing of aluminium billets. The company was incorporated in January 2007 as Bhagwati Recycling Services Private Limited by Mr. Arpit Aggarwal and Mr. Ankur Aggarwal in January, 2007 as a private limited company with the objective of providing financial consultancy services and later changed to current nomenclature in 2008. The company is currently being managed by its promoters i.e. Arpit Aggarwal and Purty Aggarwal. BRPL has its manufacturing facility based at Jhajjar, Haryana.

About the Group

Bhagwati Recycling Private Limited (BRPL) is engaged in manufacturing of aluminium billets. Entire produce of BRPL is sold to Balaji Aluminium Extrusions Private Limited. Balaji Aluminium Extrusions Private Limited (BAEPL) was incorporated in 2009 by Mr. Arpit Aggarwal and Mr. Ankur Aggarwal. The company is engaged into extrusion of Aluminium Profiles of different shapes and sizes. The manufacturing facility is located at Bahdurgarh, Haryana within proximity to National capital Delhi. Their products are used in automotive, architectural, industrial, transport, lighting and aviation & defence etc.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has considered the consolidated business and financial risk profiles of Balaji Aluminium Extrusions Private Limited and Bhagwati Recycling Private Limited to arrive at this rating. The consolidation takes into account the business synergies of both the entity.

Key Rating Drivers

Strengths

Experienced management

BRPL has been promoted by Mr. Arpit Aggarwal and Ms. Purty Aggarwal. The promoters are having an industry experience of around 11 years and 5 years respectively through their association with BRPL and a group concern, Balaji Aluminium Extrusions Private Limited (BAEPL).

Weaknesses

Below average financial risk profile

The group's financial risk profile is below average marked by low net worth, high leverage and average debt protection metrics. Group's net worth has declined from Rs. 8.81 Cr in FY 2021 to 6.15 Cr due to losses sustained in FY 2022. Group's gearing/Debt to Equity ratio has deteriorated from 2.44 times in FY 2021 to 4.91 times in FY 2022. Total debt of Rs. 30.18 Cr in FY 2022 consists of Rs. 15.11 Cr of long term borrowings, Rs. 2.90 of unsecured loans, Rs. 7.88 Cr of working capital borrowings and Rs. 4.29 Cr of CPLTD. Interest coverage ratio has declined from 2.80 times in FY 2021 to 2.41 times in FY 2022. DSCR has declined to 0.76 times in FY 2022 from 1.65 times in FY 2021. NCA/TD declined to 0.05 times in FY 2022 from 0.06 times in FY 2021. TOL/TNW has increased significantly from 3.04 times in FY 2021 to 5.78 times in FY 2022 due erosion of net worth and increase in debt portion. Debt to EBITDA improved from 10.38 times in FY 2021 to 7.20 times in FY 2022.

Working capital intensive nature of operations

Group's operations are working capital intensive marked by GCA days of 123 in FY 2022 as against 127 days in FY 2021. Inventory holding period has increased from 31 days in FY 2021 to 72 days in FY 2022. The rise in inventory is a result of sharp increase in prices of aluminium leading to increased value of inventory. Debtor realization period has declined from 48 days in FY 2021 to 30 days in FY 2022. Creditor days have declined from 53 days in FY 2021 to 37 days in FY 2022. Average bank limit utilization stood high at 96.55% for the 10 months' period between April 2022 to January 2023.

Rating Sensitivities

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any weakening of financial risk profile of the company.
- Lower than expected capacity utilization of production facilities.

Material Covenants

None.

Liquidity Position

Stretched

Group has stretched liquidity position marked by low net cash accruals to maturing debt obligation. Group generated net cash accrual of Rs. 1.56 Cr in FY 2022 against maturing debt obligation of Rs. 2.60 Cr. Company has been able to meet maturing debt obligations through infusion of unsecured loans by promoters. The group is expected to generate net cash accruals in the range of Rs. 3.10-5.00 Cr over period FY23-24 while the debt repayment obligations are expected to be in the range of Rs. 2.60-4.29 Cr for the same period. Group's unencumbered cash and bank position stood at Rs. 1.05 Cr as on March 31, 2022.

Outlook : Stable

Acuité believes that BRPL will maintain 'Stable' outlook over the medium term on back of experienced management. The outlook may be revised to 'Positive' in case the firm registers higher than-expected growth in revenues while improving profitability along with improved financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle. **Key Financials**

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	54.99	41.14
PAT	Rs. Cr.	(1.96)	0.35
PAT Margin	(%)	(3.56)	0.85
Total Debt/Tangible Net Worth	Times	4.91	2.44
PBDIT/Interest	Times	2.41	2.80

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

None

Any Other Information

None.

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
30 Nov 2021	Term Loan	Long Term	14.50	ACUITE BB- Stable (Upgraded from ACUITE B+ Stable)
	Cash Credit	Long Term	7.50	ACUITE BB- Stable (Upgraded from ACUITE B+ Stable)
29 Aug 2020	Term Loan	Long Term	9.50	ACUITE B+ Stable (Assigned)
	Proposed Bank Facility	Long Term	10.00	ACUITE B+ Stable (Assigned)
	Proposed Bank Facility	Long Term	2.50	ACUITE B+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.50	ACUITE BB- Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	14.50	ACUITE BB- Stable Reaffirmed

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About Acuité Ratings & Research

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