

Press Release

Bhilai Engineering Corporation Limited

October 01, 2021

Rating Reaffirmed & Assigned



Total Bank Facilities Rated	Rs.540.63 Cr
Long Term Rating	ACUITE B+/Stable (Reaffirmed & Assigned)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and the short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 540.63 Cr bank facilities of Bhilai Engineering Corporation Limited (BECL). The outlook is '**Stable**'.

The ratings on the bank loan facilities of BECL takes cognizance of the company's long track record of operations marked by its experienced promoters and diversified business risk profile. These strengths are offset by stretched liquidity due to elongated working capital management and declining revenue levels leading to lower accruals.

About the company

Incorporated in 1960- Bhilai Engineering Corporation Ltd (BECL) is a Bhilai (Chhattisgarh) based company with a diversified business in India. It is engaged in engineering, procurement & construction (EPC), industrial equipment supply, manufacturing fertilizers & agro-inputs and manufacturing of processed foods. Currently, BECL is headed by Mr. Veenu Jain, Mr. Arvind Kumar Jain, Mr. Ashish Jain, Mr. Surendra Kumar Jain, Mrs. Krishna Jain and Ms. Geetika Jain.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of BECL to arrive at the rating.

Key Rating Drivers

Strengths

- Established track record of operation and experienced management**

Established in 1960, the company has been operational for more than six decades. Mr. A.K. Jain is the Chairman and Mr. Veenu Jain is the Managing Director of BECL. Since 1976, the promoters have been in the business of manufacturing specialized equipment for heavy engineering goods, fertilizers and food products. The long standing experience of the promoters and long track record of operations has helped them to establish comfortable relationships with key suppliers and reputed customers across the country including large PSU's. Acuite derives comfort from the long experience of the management and believes this will benefit the company going forward, resulting in steady growth in the scale of operations.

- Diversification in business and geographies**

BECL is one of the diversified business in India catering to a diverse products range of different industry segments. It is engaged in engaged in engineering, procurement & construction (EPC), industrial equipment supply, manufacturing fertilizers & agro-inputs and manufacturing of processed foods. BECL caters largely to the domestic market, but have been steadily increasing their presence in the export market as well, mainly to European countries. The rating draws comfort from the vast business diversification across segments as well as geographies thus mitigating any concentration risk.

Weakness

- **Declining revenue trend**

The business risk profile of the company has been deteriorating since FY2019, due to continuous decline in the revenues resulting in operating losses and weakening of the financial risk profile. Revenue declined to Rs 555.00 crore FY2021 (prov.) as compared to revenues of Rs. 640.83 Cr in FY2020 amid Covid-19 induced demand slowdown and associated disruptions. Q1FY22 has also been impacted by the 2nd wave of the COVID 19 pandemic. The decline in sales from the engineering division is on account of fluctuations in price of steel products. The delay in completion of the projects due to Covid 19 lockdown, affected the revenue of the project division. Going forward, sustained improvement in scale would remain a key rating sensitivity factor.

- **Below average financial risk profile**

The company's weak financial risk profile is marked by reducing network, and weak debt protection metrics. However, the gearing of the company stood comfortable. The tangible net worth of the company has been eroded due to continuous accumulated losses. The tangible net worth of the company reduced to Rs.290.57 Cr as on March 31, 2021 (provisional) from Rs.326.11 Cr as on March 31, 2020 due to accumulation of losses. Gearing of the company stood below unity at 0.62 as on March 31, 2021 (provisional) as compared to 0.51 as on March 31, 2020. The debt of Rs.178.74 Cr mainly consists of working capital borrowing of Rs. 149.48 Cr, long term debt of Rs. 16.65 Cr, unsecured loans from promoters of Rs. 9.81 Cr, and current maturity of term loan of Rs.2.80 Cr. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.34 times as on 31st March, 2021 (prov.) similar as against 1.34 times as on 31st March, 2020. The weak debt protection metrics of the company is on account of operating losses. Acuite believes that going forward the financial risk profile of the company will improve backed by the gradually improving accruals and no major debt funded capex plans.

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 337 days as on March 31, 2021 (provisional) as against 330 days as on March 31, 2020. The high GCA days are on account of high debtor period which stood at 98 days as on March 31, 2021 as compared to 91 days as on 31st March 2020. The debtors are primarily high due to inherent nature of the business. Further, the inventory period stood high at 91 days as on 31st March, 2021 (prov.) against 94 days in the previous year. In engineering division, the gestation period is fairly long starting from the manufacturing of the goods to commissioning the project. The fertilizer subsidies are cleared only after audit and other formalities are completed by the Government authorities. Going forward, Acuite believes that the working capital management of the company will remain at similar levels as evident from the high debtor and inventory level.

Rating Sensitivity

- Significant ramp up in scale of operations while improving the profitability margin
- Elongation of working capital cycle

Material Covenant

None

Liquidity Profile: Stretched

The company's liquidity is stretched marked by accumulated losses. The fund based limit remained fully utilised over four months ended July, 2021. Further, the company has availed loan moratorium and also applied for additional covid loan of Rs. 14.04 Cr. The working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 337 days as on March 31, 2021 (provisional) as against 330 days as on March 31, 2020. However, the cash and bank balances of the company stood at Rs.39.16 Cr as on March 31, 2021 (provisional) as compared to Rs. 37.30 Cr as on March 31, 2020. The current ratio stood comfortable at 1.43 times as on March 31, 2021 (provisional). Acuite believes that going forward the liquidity position of the company will improve backed by the gradually improving accruals.

Outlook: Stable

Acuite believes that the outlook on BECL will remain 'Stable' over the medium term on account of the experience of the promoters and diversified business risk profile. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its scale of operations. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile and liquidity position or further elongation in its working capital cycle.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	555.00	640.83
PAT	Rs. Cr.	(35.54)	(42.68)
PAT Margin	(%)	(6.40)	(6.66)
Total Debt/Tangible Net Worth	Times	0.62	0.51
PBDIT/Interest	Times	(0.06)	(0.22)

Status of non-cooperation with previous CRA

Care Ratings, vide its press release dated April 05, 2021 had downgraded the rating of Bhilai Engineering Corporation Limited to 'CARE D; ISSUER NOT COOPERATING'.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.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	Ratings/Outlook
			(Rs. Cr)	
22-September-2021	Cash Credit	Long term	35.02	ACUITE B+/Stable (Assigned)
	Cash Credit	Long term	32.00	ACUITE B+/Stable (Assigned)
	Cash Credit	Long term	34.65	ACUITE B+/Stable (Assigned)
	Cash Credit	Long term	10.88	ACUITE B+/Stable (Assigned)
	UCECL	Long term	1.39	ACUITE B+/Stable (Assigned)
	ECLGS	Long term	2.38	ACUITE B+/Stable (Assigned)
	Letter of Credit	Short Term	38.50	ACUITE A4 (Assigned)
	Letter of Credit	Short Term	46.10	ACUITE A4 (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A4 (Assigned)
	Letter of Credit	Short Term	55.05	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	216.00	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	4.35	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	31.31	ACUITE A4 (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.02	ACUITE B+/Stable (Reaffirmed)
Central Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	32.00	ACUITE B+/Stable (Reaffirmed)
IDBI Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	34.65	ACUITE B+/Stable (Reaffirmed)
UCO Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.88	ACUITE B+/Stable (Reaffirmed)
UCO Bank	UCECL	Not Applicable	Not Applicable	Not Applicable	1.39	ACUITE B+/Stable (Reaffirmed)
Central Bank of India	ECLGS	Not Applicable	Not Applicable	Not Applicable	2.38	ACUITE B+/Stable (Reaffirmed)
State Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	38.50	ACUITE A4 (Reaffirmed)
Central Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	46.10	ACUITE A4 (Reaffirmed)
IDBI Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4 (Reaffirmed)
UCO Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	55.05	ACUITE A4 (Reaffirmed)
State Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4 (Reaffirmed)
Central Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	216.00	ACUITE A4 (Reaffirmed)
IDBI Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.35	ACUITE A4 (Reaffirmed)
UCO Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	31.31	ACUITE A4 (Reaffirmed)
IDBI Bank	ECLGS	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE B+/Stable (Assigned)
State Bank of India	ECLGS	Not Applicable	Not Applicable	Not Applicable	6.65	ACUITE B+/Stable (Assigned)
Not Applicable	Proposed Fund Based Facilities	Not Applicable	Not Applicable	Not Applicable	0.35	ACUITE B+/Stable (Assigned)

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About Acuité Ratings & Research

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