

Press Release

Bhagwan Precision

D-U-N-S® Number: 86-115-2562

December 12, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 10.00 crore bank facilities of Bhagwan Precision. The outlook is '**Stable**'.

Bhagwan Precision (BP) is a partnership firm established in 2010. The firm is based at Kaliyar village in Haridwar, Uttarakhand. The firm is engaged in the manufacturing of auto parts and components for Hero Motocorp.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Bhagwan Precision.

Key Rating Drivers

Strengths

• Experienced Management

BP is promoted by the Bansal family with around a decade of experience in manufacturing auto parts & components for Hero Motocorp. The entity was established in 2010 and gradually expanded to the present total capacity. BP has a competent management supported by a team of well qualified and experienced second line personnel. The promoter's experience in the industry has helped the firm to build healthy relationship with its suppliers, to ensure a steady raw material supply. Acuite believes that the promoter's experience and moderate demand would aid the business risk profile of the firm over the medium term.

• Moderate financial risk profile

BP has shown an improvement in revenue marked by operating income of Rs.48.13 crore in FY2018 as against Rs.44.65 crore in FY2017 and Rs.44.00 crore in FY2016. The firm has booked revenue of Rs.34.50 crore for April to October, 2018 and the current orders in hand stood at Rs.4.50 crore for the month of November 2018. Further, the firm's operating margins have shown an improving trend of 13.44 percent in FY2018 as against 11.24 percent in FY2017 and 10.50 percent in FY2016. The firm reported Profit after Tax (PAT) margin of 10.13 percent in FY2018 against 7.56 percent in FY2017 and 6.20 percent in FY2016. The firm also observed an improvement in Net Cash Accrual (NCA) margin by increasing to 12.90 percent for FY2018 as against 10.24 percent for FY2017. BP has recorded a Return on Capital Employed (ROCE) of 31.92 percent for FY2018 as against 25.06 percent for FY2017. Going forward, Acuite believes that the firm will continue to effectively manage its profitability in order to maintain a stable credit profile

• Moderate working capital operations

BP has moderate working capital operations marked by Gross Current Assets (GCA) of 66 days as on March 31, 2018 as against 62 days as on March 31, 2017. The inventory levels are at 12 days in FY2018 as against inventory levels at 16 days in FY2017. The debtor levels stood at 18 days as on March 31, 2018 as against 17 days as on March 31, 2017. Moderate working capital management has led to moderate utilisation of working capital limits over the past six months ended October 2018 to the extent of 80-90 percent. Acuite believes that the working capital operations of the firm will remain moderate as evident from the operating cycle of the firm.

Weaknesses

• Intense competition

BP operates in an industrial area with many other manufacturers of auto parts and components, results in increased competition. This reduces the window to expand margins beyond a point. Furthermore, the industry competition is also with other automobile component manufacturers working for other automobile companies such as Honda, TVS and others.

• Complete dependency on single client

The company solely manufactures auto parts and components for Hero Motocorp. This makes the firm completely dependent on a single client for their revenue. The company does not have any plan to manufacture for other automobile players at the time.

Outlook: Stable

Acuite believes that BP will maintain a 'stable' outlook over the medium term from its experienced management and established association with clients. The outlook may be revised to 'Positive' in case the company registers a substantial increase in its scale of operations and profit margins, while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability in revenues or in case of deterioration in the company's financial risk profile on account of higher-than expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	48.13	44.65	44.00
EBITDA	Rs. Cr.	6.47	5.02	4.62
PAT	Rs. Cr.	4.87	3.37	2.73
EBITDA Margin	(%)	13.44	11.24	10.50
PAT Margin	(%)	10.13	7.56	6.20
ROCE	(%)	31.92	25.06	46.60
Total Debt/Tangible Net Worth	Times	0.30	0.45	0.59
PBDIT/Interest	Times	22.76	10.55	6.53
Total Debt/PBDIT	Times	0.58	0.99	1.18
Gross Current Assets (Days)	Days	66	62	50

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

Not Applicable

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	2.50	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.24	ACUITE BBB- / Stable
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.26	ACUITE BBB- / Stable

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuute.in Viren Rangparia Analyst - Rating Operations Tel: 02249294053 viren.rangparia@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuute.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings 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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.