

April 07, 2021

## Beardsell Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Medium Term - Fixed Deposit	5.00	5.00	MB+ (Stable) reaffirmed;
<b>Total</b>	<b>5.00</b>	<b>5.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmed rating favourably factors in the extensive experience of the promoters and the management of Beardsell Limited (BSL or the company) of over two decades in the expanded polystyrene packaging and engineering industry. The long-term association of the company with some of the customers resulting in repeated orders and its diversified customer profile as witnessed by low contribution of top five customers being in the range of 7-12% in last four fiscals.

The rating is, however, constrained by the company's financial profile characterised by modest scale of operations with a significant decline of 17% and 29% in revenues in FY2020 and 9M FY2021 respectively on a YoY basis and modest profitability. Also, coverage ratios have remained weak with interest coverage ratio and DSCR of 2.07 times and 0.61 times respectively as on March 31, 2020. Given the debt repayments in FY2021 and FY2022, the liquidity profile has also remained stretched arising from elongated receivables and modest cash accruals. Also, the increase in working capital requirements has been funded by stretching the creditors, resulting in a moderate ratio of total outside liabilities to tangible net worth (TOL/TNW) of 2.11 times as on March 31, 2020 and 2.14 times as on September 30, 2020. The rating also factors in the susceptibility of BSL's profitability to fluctuations in raw material prices in both the prefabricated and the EPS divisions. Further, given that sales are linked to the demand and cyclicity of end-user industries (in this case, consumer durables), any slowdown in demand may adversely impact revenue growth and profitability. During FY2021 due to the impact of Covid-19 pandemic on order flows and sharp volatility in raw material prices, the financial performance is expected to be subdued.

The Stable outlook on the medium-term rating considers that the company will continue to benefit from the extensive experience of its promoters and the management in the expanded polystyrene and engineering industry.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters and the management in the EPS segment** – BSL started its operations in 1936 under the guidance of the Late P Punnaiah. Its operations are at present headed by the executive director, Mr. Amrith Anumolu, who has been involved in the engineering industry for over two decades. The company's established track record of operations as well as the extensive experience of its management has enabled it to establish itself in the expanded polystyrene and engineering industry.

**Diversified client base with repeat orders from a few clients** – BSL entirely caters to the domestic market. Primarily pharma companies, water purifier manufacturers and Government departments, among others. The customer base has remained diversified over the past three years with the top five customers driving ~7% of its total sales in FY2020. Its long-term association with some of the customers have also led to repeat business for the company.

## Credit challenges

**Financial profile characterised by decline in revenues, modest profitability and weak coverage indicators** – On a consolidated level, BSL's turnover has declined by ~17% in FY2020 and 29% in 9M FY2021 on a YoY basis owing to low orders following the Covid-19 pandemic. While its operating profit margin increased from 5.06% in FY2019 to 8.19% in FY2020 and 8.84% in 9M FY2021, the NPM was at 0.51% and -1.21% during FY2020 and 9m FY2021 compared to -0.39% in FY2019. Further due to a sharp increase in raw material prices, the full year financial performance is expected to be subdued.

**Stretched liquidity position leading to high utilisation of limits** – Given the high receivables and modest cash accruals, the liquidity remains stretched as witnessed by high utilisation of sanctioned fund-based working capital limits at 70% for 11-month period ending February 2021. Further, high creditor levels have led to high TOL/TNW of 2.11 times (P.Y. 2.17 times) as on March 31, 2020 and 2.14 times as on September 30, 2020 on account of high creditor funding in the business to meet its working capital requirements. Debt repayments in the near to medium term are further expected to exacerbate the liquidity position. However, ICRA notes that the company has already availed a moratorium of six months on the outstanding loans and Covid-19 relief loans to the tune of Rs. 4.7 crore in line with the RBI guidelines

**Exposed to raw material fluctuation risk** - The major raw materials required are expanded polystyrene (EPS) resins, isocyanate, pre-painted galvalume coils, galvanized iron wire, and other electrical accessories. EPS resins, iso-cyanate and steel contribute for a majority of its raw material requirement. BSL's profitability remains exposed to raw material price volatility as the key input for EPS products, polystyrene, is linked to crude oil, which has remained hugely volatile in the past few years and other raw materials like iso cyanate have also witnessed a sharp increase in the current fiscal. The company has limited ability to pass on raw material price fluctuations and hence margins are vulnerable to volatility in raw material cost.

**A slowdown in demand of end-user industry could adversely impact revenue growth and profitability** - BSL has two major business segments namely, the packaging/moulded products and prefabricated panel products, with the former driving ~45% of total revenues in FY2020 and 9M FY2021. BSL supplies moulded thermocol and EPS sheets used as packaging material for consumer durable products. Hence, its operations remain exposed to the cyclical demand from end-user industries. Further, for the prefabricated segment, the demand is driven by capital expenditure plans of customers and can be volatile.

## Liquidity position: Stretched

On a consolidated basis, BSL has term loans of Rs. 8.63 crore on its books as on March 31, 2020 with repayment of Rs 1.84 crore each in FY2021, FY2022 and FY2023. The liquidity position of the company remains stretched due to high working capital intensity emanating from its stretched receivables, elevated inventory levels and modest cash accruals. Consequently, the working capital utilisation has remained near to high at 70% during March 2020 to February 2021. Also, with capital expenditure incurred, free cash flows have turned negative in FY2020.

However, the company has no major capital expenditure planned in the near term. The company had availed the moratorium under Covid-19 relief in the current fiscal and hence, repayments of term loan and interest were delayed by six months providing some liquidity support in FY2021. ICRA also notes that the company has received Rs 4.7 crore as a part of the Covid-19 relief package under the RBI guidelines which will support the liquidity in the near term.

## Rating sensitivities

**Positive factors** – The rating can be upgraded if there is a substantial improvement in revenue and profitability with better working capital management, as well as improvement in liquidity position of the company.

**Negative factors** – The rating can be downgraded if there is lower-than-expected cash accruals or any increase in borrowing levels as well as any stretch in working capital cycle weakening the liquidity.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Beardsell Limited. As on March 31, 2020, the company had one subsidiary and one controlled entity, which are listed out in Annexure-2.

## About the company

Beardsell Limited was incorporated in 1936 by the Late P Punnaiah. It manufactures insulation products such as prefabricated products as well as packaging and moulded products. The prefabricated segment comprises panel products, which find applications in sectors such as cold storages, affordable housing, food processing plants, pharma, roofing applications, and so on. The company's packaging and moulded products segment manufactures panels (expanded polystyrene sheets and rigid polyurethane foam slabs) primarily used for composite packaging, anti-static packaging, building insulation, etc, that find application in the consumer durables industry. Besides, BSL trades in industrial motors in the domestic market. It is a channel partner for Siemen's electric motors in Tamil Nadu. The company has four manufacturing units, with one each in Mumbai, Chennai, Bangalore and Karad (Maharashtra). Its registered office is in Chennai.

## Key financial indicators (audited)

Beardsell Consolidated	FY2019	FY2020	9M FY2021*
Operating Income (Rs. crore)	193.88	161.72	85.63
PAT (Rs. crore)	-0.75	0.82	-1.04
OPBDIT/OI (%)	5.06%	8.19%	8.84%
PAT/OI (%)	-0.39%	0.51%	-1.21%
Total Outside Liabilities/Tangible Net Worth (times)	2.17	2.11	-
Total Debt/OPBDIT (times)	4.16	2.85	-
Interest Coverage (times)	1.65	2.07	1.86

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation \*Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Apr 07, 2021	July 31, 2020	May 31, 2019	Apr 04, 2019
1	Public Deposits	Medium - Term	5.00	-	<b>MB+ (Stable)</b>	MB+ (Stable)	MB+ (Stable)	MB+ (Stable)

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

**Annexure-1: Instrument details**

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Public Deposits	NA	NA	NA	5.00	MB+ (Stable)

**Source:** Company

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	BSL Ownership	Consolidation Approach
Beardsell limited	100%	Full Consolidation
Sarovar Insulation Pvt. Ltd.	100%	Full Consolidation
Saideep Polytherm	100%	Full Consolidation

**Source:** BSL annual report FY2020

**Note:** ICRA has taken a consolidated view of the parent (BSL), its subsidiaries and associates while assigning the ratings.

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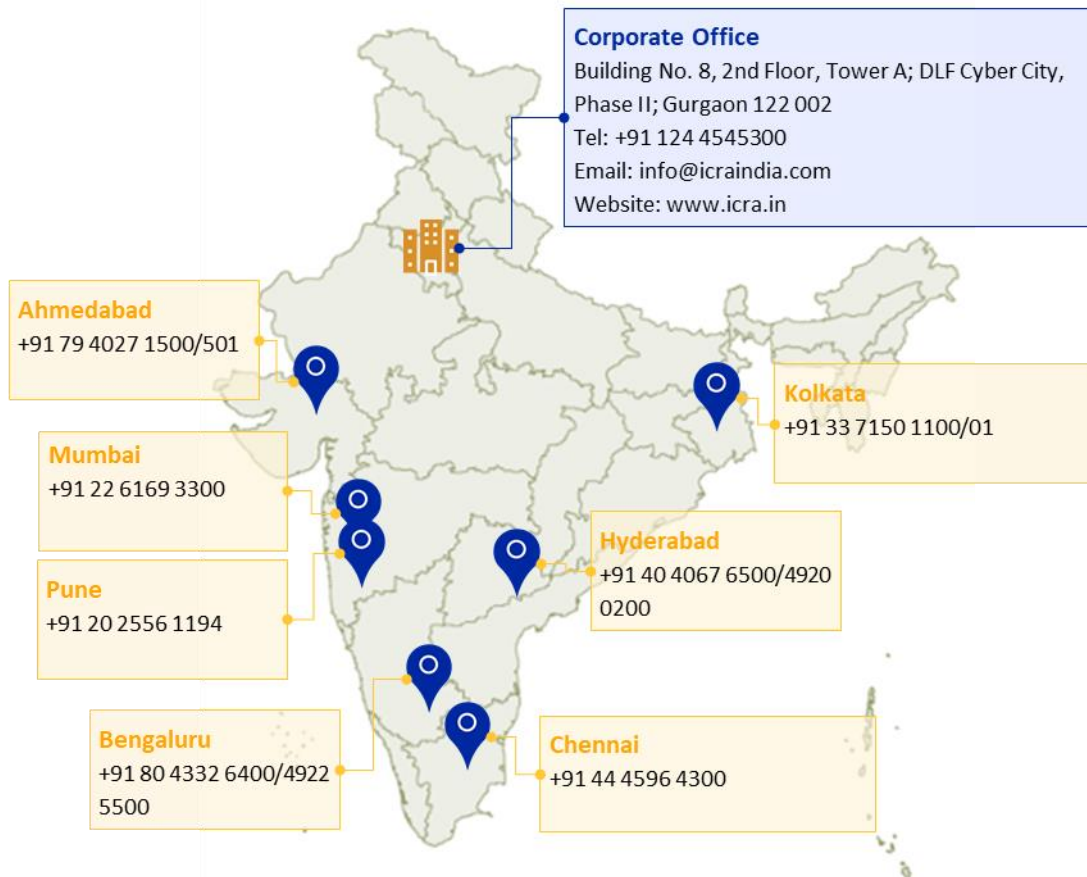
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