

March 15, 2022

## Black Burn & Co. Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Cash Credit	11.00	11.00	[ICRA]BBB- (Stable); reaffirmed
Fund based – Term Loan	0.61	0.00	-
Non-fund Based Limits	3.39	3.39	[ICRA]A3; reaffirmed
Unallocated	0.00	0.61	[ICRA]BBB- (Stable) /[ICRA]A3; reaffirmed
<b>Total</b>	<b>15.00</b>	<b>15.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of the ratings considers the long experience of Black Burn & Co. Private Limited's (BBCPL) promoters in manufacturing injection and compression-moulded products. Besides, a diverse product portfolio across various end-user industries reduces the demand dependence on any specific industry. ICRA also notes stable cash accruals from the business during the past few years, which aids the company's debt repayment obligations and maintain comfortable capital structure and coverage indicators.

The ratings are, however, constrained by BBCPL's modest scale of operations and high working capital intensity. The ratings also factor in the high client concentration risk as a major portion of the revenues is contributed by the Indian Railways. However, a reputed client profile mitigates the counterparty credit risk to a large extent. Besides, the overall profitability remains vulnerable to the fluctuations in raw material prices, competition and volatility in foreign exchange (forex) rates in the absence of any hedging mechanism.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that BBCPL's credit profile is expected to remain stable, backed by a expected steady sale growth and comfortable coverage indicators.

### Key rating drivers and their description

#### Credit strengths

**Long experience of promoters** – The company is promoted by Kolkata-based Somani family, who have an experience of around four decades in manufacturing injection and compression-moulded products.

**Wide product range, catering to multiple end-user industries** – The company has a diversified product portfolio catering to various end-user industries like infrastructure, electrical, retail, etc. The company does not have a fixed-product line and can manufacture various products depending on the customers' requirements, which provides flexibility to its operations. At present, the product range is restricted to GFN lines and cable ties (forming >60% of the revenues); however, the ability to manufacture different products reduces the overall concentration risk.

**Comfortable capital structure and debt protection metrics** – ICRA notes cash accruals from the business have remained stable over the past few years, supporting the company's debt repayment obligations. BBCPL's capital structure has remained comfortable with a gearing of 0.61 times as on March 31, 2021. The coverage indicators have remained healthy in FY2021, reflected in its interest coverage ratio of 3.30 times (2.97 times in FY2020), total debt/OPBDITA of 2.52 times (2.97 times in

FY2020) and NCA/total debt of 24% (17% in FY2020). Going forward, ICRA expects the capital structure and coverage indicators to be healthy.

## Credit challenges

**Moderate scale of operations** – The company's scale of operations is at a moderate level. The operating income (OI) declined to Rs. 58.57 crore in FY2021 from Rs. 78.37 crore in FY2020, a YoY decline of ~25%, primarily due to lower demand because of the pandemic. Despite an expected recovery with pick-up in demand in the current fiscal, the overall scale is expected to remain moderate.

**High working capital intensity**– The working capital intensity of operations continued to be high at 61% in FY2021 (54% in FY2020) because of the high receivables and inventory holding.

**Exposure to client concentration risk** – The top-10 customers contributed around 97% (93% in FY2020) to the total sales in FY2021, exposing the company to increased client concentration risk, with the Indian Railways being a primary contributor. A reputed client base, however, reduces the counterparty risk to a large extent.

**Profitability susceptible to volatility in raw material prices, competition and forex fluctuations** – Manufacturing injection and compression-moulded products are raw material-intensive, hence the profit margins are susceptible to the adverse fluctuations in raw material prices, particularly nylon. Moreover, a significant portion of the total raw materials consumed by the company is imported, primarily nylon. The company does not have a formal hedging policy, which exposes its profitability to the adverse movements in forex rates. The company's ability to pass on the increased cost to customers in a competitive market will remain a key determinant of its profitability, going forward.

## Liquidity position: Adequate

ICRA notes BBCPL's high receivables and inventory holding will continue to keep the working capital intensity of operations high. However, ICRA expects the cash flows from operation to remain adequate to meet the company's debt servicing obligations. Additionally, the average utilisation of the working capital limits has remained at 51% (undrawn line of credits of Rs. 12.22 crore as on December 31, 2021) during the last 12 months ended December 2021, providing cushion.

## Rating sensitivities

### Positive factors

The ratings may be upgraded if:

- BBCPL is able to show a significant scale up its operations, while maintaining healthy margins and improving the working capital cycle on a sustained basis

### Negative factors

The ratings may be downgraded if:

- there is any deterioration in the revenues and/or profitability
- the working capital intensity of operations increases and/or there is any major debt-funded capital expenditure (capex), adversely impacting the company's liquidity position
- a specific trigger such as the interest coverage ratio drops below 2.8 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of BBCPL

## About the company

Black Burn & Co. Private Limited (BBCPL), incorporated in 1982 and promoted by Kolkata-based Somani family, manufactures injection and compression-moulded products, which include GFN liners, nylon bushes, dowels, meter boxes, bobbins, cable ties, special cable ties, loop pins, tag pins, cable clips, self-lubricating polyester resin bushes, high-performance polyamide bushes, self-lubricating wearing pieces, fibreglass reinforced plastic product (FRP) drivers' cabins, cartoon corners, etc. The company's manufacturing facilities are in Kolkata, West Bengal and at Baddi, Himachal Pradesh.

## Key financial indicators

BBCPL	FY2020	FY2021
Operating Income (Rs. crore)	78.37	58.57
PAT (Rs. crore)	3.21	3.35
OPBDIT/OI (%)	13.60%	14.67%
RoCE (%)	13.62%	10.95%
Total Outside Liabilities/Tangible Net Worth (times)	1.15	0.74
Total Debt/OPBDIT (times)	2.97	2.52
Interest Coverage (times)	2.55	3.30
DSCR (times)	1.66	1.97

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the year).*

**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 as on Mar 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					March 15, 2022	Nov 19, 2020	Jan 8, 2020	January 29, 2019
1	Cash credit	Long-term	11.00	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)
2	Term Loan	Long-term	0.00	-	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)
3	Non-fund Based limits	Short-term	3.39	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
4	Unallocated	Long-term	0.61	-	[ICRA]BBB-(Stable)/[ICRA]A3	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Non-fund based limits	Simple
Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No/Banker's name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	11.00	[ICRA]BBB- (Stable)
NA	Non-fund Based Limits	NA	NA	NA	3.39	[ICRA]A3
NA	Unallocated	NA	NA	NA	0.61	[ICRA]BBB- (Stable)/ [ICRA]A3

### Annexure-2: List of entities considered for consolidated analysis- Not applicable

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