

March 29, 2022

## 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 rating reaffirmation 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 results in repeat orders. Further, its customer base is diversified, witnessed by the low contribution of the top five customers in the range of 7-12% in the last four fiscals.

The rating is, however, constrained by the company's relatively weak financial profile characterised by a modest scale of operations with a significant 17% year-on year revenue decline in FY2021 and modest profitability. However, the company is likely to demonstrate healthy growth in FY2022 over FY2021. Also, the coverage ratios have remained weak with an interest coverage ratio of 2.21 times and DSCR of 0.59 times as on March 31, 2021. Given the debt repayments in FY2022 and FY2023, the liquidity profile has also remained stretched due to the elongated receivables and modest cash accruals. Also, the increase in the working capital requirements has been funded by stretching the creditors, resulting in a moderation of the total outside liabilities to tangible net worth (TOL/TNW) to 2.10 times as on March 31, 2021 and 2.02 times as on September 30, 2021. Moreover, there has been an equity infusion of around Rs. 9.4 crore in the current fiscal, enabling the repayment of high interest-bearing unsecured loans and some inter-corporate deposits.

The rating also factors in the susceptibility of BSL's profitability to the fluctuations in raw material prices in both the prefabricated and the EPS divisions. Further, as the sales are linked to the demand and cyclicity of the end-user industries (in this case, consumer durables), any slowdown in demand may adversely impact revenue growth and profitability.

The Stable outlook on the medium-term rating is backed by expectations 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 management** – BSL started its operations in 1936, which are presently 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 and the extensive experience of its management have 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. The customer base has remained diversified in the last three years with the top five customers driving ~8% of its total sales in FY2021. Its long-term association with some of the customers has also led to repeat business for the company.

## Credit challenges

**Financial profile characterised by revenue decline, modest profitability and weak coverage indicators** – On a consolidated level, the group's operating income declined to Rs 133.2 crore in FY2021 from Rs 161.7 crore in FY2020 due to the adverse impact of the pandemic on the end-user segments in FY2021. Despite the decline in OI, the OPM marginally increased to 8.8% in FY2021 from 8.2% in FY2020; the NPM was -0.30% in FY2021 and 0.51% in FY2020 compared with -0.39% in FY2019. Also, coverage ratios have remained weak with an interest coverage ratio of 2.21 times and DSCR of 0.59 times as on March 31, 2021. However, ICRA expects the revenue to increase in the coming fiscals, indicated by the 52.9% revenue growth in 9M FY2022 to Rs. 131 crore compared with Rs. 85.63 crore in 9M FY2021.

**Stretched liquidity position leading to high utilisation of limits** – The high receivables and modest cash accruals stretched the liquidity, witnessed in the high utilisation of sanctioned fund-based working capital limits at 69% in FY2021 which increased to some extent in the current fiscal. Further, high creditor levels have led to high TOL/TNW of 2.10 times (P.Y. 2.11 times) as on March 31, 2021 and 2.02 times as on September 30, 2021 on account of increased 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. Also, in January 2022, the company completed its right issue of almost Rs. 9 crore which was used to repay the high interest cost promoter loans of Rs. 3.25 crore and ICDs of Rs. 2.25 crore. The balance of ~Rs. 3 crore of equity will be used for working capital funding.

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

**Slowdown in demand of end-user industry could adversely impact revenue growth and profitability** - BSL has two major business segments - packaging/moulded products and prefabricated panel products - with the former driving 40- 45% of the total revenues in FY2021 and H1 FY2022. 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 the end-user industries. Further, for the prefabricated segment, the demand is driven by the capital expenditure plans of customers and can be volatile.

## Liquidity position: Stretched

On a consolidated basis, BSL has a term loan/fixed deposit/unsecured loans and advances from related parties of ~Rs 21.3 crore as on March 31, 2021, which includes loans received as part of the Covid-19 relief package under the RBI guidelines. BSL is expected repay ~Rs 6.5 crore in FY2022, Rs 4.0 crore in FY2023 and ~Rs 3.1 crore in FY2024. The liquidity position is expected to remain stretched due to modest cash accruals and cash balance of Rs. 2.46 crore as on March 31, 2021 vis-à-vis the repayment obligations. There was an equity infusion of Rs. 9.4 crore which is likely to support the liquidity to some extent. The company also has a sizeable modernisation capex plan in the near term which is expected to be partially debt funded.

## 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 the company's liquidity position.

**Negative factors** – The rating can be downgraded if there is lower-than-expected cash accruals or any increase in borrowing levels or any stretch in the working capital cycle that will weaken 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, 2021, 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 with its head office in Chennai. It manufactures insulation products such as prefabricated products and 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 and roofing applications. 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 six manufacturing units, one each in Chennai, Thane, Karad, Hyderabad, Malur (Karnataka) and Hapor. Its registered office is in Chennai with eight branches pan India.

## Key financial indicators (audited)

Beardsell Consolidated	FY2020	FY2021	9M FY2022
Operating Income (Rs. crore)	161.72	133.15	131.06
PAT (Rs. crore)	0.82	-0.41	1.10
OPBDIT/OI (%)	8.19%	8.76%	7.45%
PAT/OI (%)	0.51%	-0.31%	0.84%
Total Outside Liabilities/Tangible Net Worth (times)	2.11	2.10	-
Total Debt/OPBDIT (times)	2.85	3.29	-
Interest Coverage (times)	2.07	2.21	2.68

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

## 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 on		Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					Mar 29, 2022	Apr 07, 2021	July 31, 2020	May 31, 2019	Apr 04, 2019	-
1	Fixed Deposits	Medium - Term	5.00	-	MB+ (Stable)	MB+ (Stable)	MB+ (Stable)	MB+ (Stable)	MB+ (Stable)	-

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Fixed Deposit	Very Simple

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 analyzing 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, is available on ICRA's website: [www.icra.in](http://www.icra.in)

## 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	Fixed 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 FY2021

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

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