

June 29, 2022^(Revised)

Beardsell Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based			
Long Term Loan	3.35	-	-
Cash Credit	16.35	14.85	[ICRA]BB (Stable); reaffirmed
Working Capital Term Loan	3.10	3.97	[ICRA]BB (Stable); reaffirmed
Working Capital Demand Loan	1.52	0.11	[ICRA]BB (Stable); reaffirmed
Non Fund Based			
Bank Guarantees	20.00	20.00	[ICRA]A4; reaffirmed
Letter of Credit	(12.00)	(12.00)	[ICRA]A4; reaffirmed
Long Term - Fixed Deposit	5.00	5.00	[ICRA]BB (Stable); reaffirmed
Total	49.32	43.93	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings 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 company's long-term association 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 7-9% in the last four fiscals.

The ratings are, however, constrained by the company's relatively weak financial profile, characterised by modest profitability and moderate coverage indicators. On a consolidated level, the operating margin declined to 7.97% in FY2022 from 8.76% in FY2021 due to the increase in the raw material and transportation costs. However, the company witnessed a significant revenue growth of 42% YoY to Rs. 188 crore in FY2022 and the growth trend is likely to continue in FY2023 and FY2024. The liquidity profile has also remained stretched due to the elongated receivables, moderate cash accruals and sizeable capex plans. Also, the increase in the working capital requirements has been funded by stretching the creditors. Moreover, BSL completed a rights issue of around Rs. 9.4 crore in January 2022 which enabled it to repay high interest-bearing unsecured loans and some inter-corporate deposits.

The ratings also factor in the susceptibility of BSL's profitability to the fluctuations in raw material prices in both the pre-fabricated 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 long-term rating is backed by expectations that the company will continue to benefit from the healthy demand outlook for its products from the consumer durables and engineering industries.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and management – BSL, which started its operations in 1936, is now being 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 ~9% of its total sales in FY2022. Its long-term association with some of the customers has also led to repeat business for the company.

Credit challenges

Financial profile characterised by modest profitability and coverage indicators– On a consolidated level, the Group's OPM declined to 7.97% in FY2022 from 8.76% in FY2021 due to the increase in raw material and transportation costs. The transportation costs affect the margins as they account for ~6-7% of the total manufacturing costs. The coverage ratios have remained moderate with an interest coverage ratio of 3.15 times for FY2022. However, the company witnessed a significant revenue growth in FY2022, which is likely to continue in the medium term.

Exposed to raw material fluctuation risk - The margins of the company are fluctuating on account of the volatility in raw material prices. The major raw materials required are expanded polystyrene (EPS) resins, iso-cyanate, pre-painted galvalume coils, galvanised 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 43.76% and 42.56% of the total revenues, respectively, in FY2021 and 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

The working capital utilisation has remained high at 72% in the last 12 months ended May 31, 2022. On a consolidated basis, BSL has a term loan/unsecured ICDs/fixed deposit of ~Rs. 5.94 crore as on March 31, 2022, which includes loans received as part of the Covid-19 relief package under the RBI guidelines. BSL repaid ~Rs. 4.10 crore of debt in FY2022 and is expected to repay another ~Rs. 1.52 crore in FY2023 and ~Rs 2.13 crore in FY2024. The liquidity position is expected to remain stretched, going forward, due to the modest cash balance of Rs. 2.55 crore as on March 31, 2022, moderate cash accruals and elongated receivables. Although the repayment obligations have reduced to an extent, the company has sizeable capex plans which is expected to constrain the liquidity position to an extent. The company has capex plans of Rs. 5.00 crore in FY2023 and Rs.10.00 crore in FY2024. The capex in FY2023 is expected to be funded from internal accruals and in FY2024, the capex would be funded by mix of debt and internal accruals. There was an equity infusion of Rs. 9.4 crore in January 2022, of which Rs. 0.81 crore were issue-related expenses, Rs. 2.47 crore was used towards the working capital requirements and the remaining was used to repay interest-bearing ICDs and promoter debt.

Rating sensitivities

Positive factors – The ratings can be upgraded if there is a substantial improvement in revenue and profitability with better working capital management along with an improvement in the company's liquidity position.

Negative factors – The ratings can be downgraded if there is lower-than-expected cash accruals or any increase in the borrowing levels or any stretch in the working capital cycle that will weaken the liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
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, 2022, 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, Maler (Karnataka) and Hapor. Its registered office is in Chennai with nine branches pan-India.

Key financial indicators (audited)

Beardsell (Consolidated)	FY2021	FY2022
Operating income (Rs. crore)	133.15	188.82
PAT (Rs. crore)	-0.41	2.81
OPBDIT/OI (%)	8.76%	7.97%
PAT/OI (%)	-0.31%	1.49%
Total outside liabilities/tangible net worth (times)	2.10	1.52
Total debt/OPBDIT (times)	3.29	2.14
Interest coverage (times)	2.21	3.15

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 (FY2023)						Chronology of Rating History for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating on			Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020	
					Jun 29, 2022	Jun 07, 2022	Apr 18, 2022	Mar 29, 2022	Apr 07, 2021	July 31, 2020	May 31, 2019	Apr 04, 2019
1	Long Term Loan	Long-Term	-	-	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-	-	-	-
2	Cash Credit	Long-Term	14.85	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-	-	-	-
3	Working Capital Term Loan	Long-Term	3.97	2.47	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-	-	-	-
4	Working Capital Demand Loan	Long-Term	0.11	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-	-	-	-
5	Letter of Credit	Short-Term	(12.00)	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	-	-	-	-	-
6	Bank Guarantees	Short-Term	20.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	-	-	-	-	-
7	Fixed Deposits	Long-Term	5.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable);migrated from MB+(Stable)	MB+ (Stable); Outstanding	MB+ (Stable)	MB+ (Stable)	MB+ (Stable)	MB+ (Stable)	MB+ (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Working Capital Term Loan	Simple
Working Capital Demand Loan	Simple
Letter of Credit	Very Simple
Bank Guarantees	Very Simple
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 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

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	Cash Credit	NA	11.85%	NA	14.85	[ICRA]BB (Stable)
NA	Working Capital Term Loan	6 August, 2020	7.50%	FY2025	3.97	[ICRA]BB (Stable)
NA	Working Capital Demand Loan	NA	6.85%	FY2023	0.11	[ICRA]BB (Stable)
NA	Letter of Credit	NA	NA	NA	(12.00)	[ICRA]A4
NA	Bank Guarantees	NA	NA	NA	20.00	[ICRA]A4
NA	Fixed Deposits	NA	NA	NA	5.00	[ICRA]BB (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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 Polythermal	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.

Corrigendum

Document dated June 29, 2022 has been corrected with revisions as detailed below:

- KFI table on page no. 4: figures related to Total outside liabilities/tangible net worth (times) of FY2022 for Beardsell Limited Consolidated has been corrected.

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