September 09, 2022

Bharat Fritz Werner Limited: Ratings reaffirmed; Outlook on the long-term rating revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	61.50	52.50	[ICRA]A-; reaffirmed and outlook revised to Positive from Stable
Long-term Fund-based – Term Loan	27.15	16.38	[ICRA]A-; reaffirmed and outlook revised to Positive from Stable
Short-term Non-fund Based	93.50	102.50	[ICRA]A2+; reaffirmed
Unallocated Limits	4.30	-	
Total	**186.45**	**171.38**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook on the long-term rating factors the improvement in Bharat Fritz Werner Limited's (BFW/the company) revenues and margins in 5M FY2023 and the company's healthy order book position, and the expectation that this would continue going forward as well. The company reported a topline of Rs. 450 crore in 5M FY2023, as against Rs. 788.8 crore in FY2022 (according to unaudited financials). Further, the company has an orderbook of over Rs. 650 crore as on August 31, 2022, supported by the OE segment, replacement demand and import substitution, providing revenue visibility for the next few quarters. The consolidation in the industry with shift in demand to organised players from unorganised players would support BFW's revenues over the medium term. The operating profit margins also witnessed an improvement to 5.8% in 5M FY2023, as against 3.5% for FY2022 (according to unaudited financials), aided by improved operating leverage and cost-optimisation initiatives. The margin improvement is expected to sustain going forward as well, based on current trends.

The ratings also draw comfort from the company's long presence of over five decades in the Indian machine tool industry, its comfortable capital structure and its adequate coverage indicators. Also, the company has a well-established and diversified clientele with the top 10 customers accounting for just 16% of the company's revenues in FY2022. However, BFW's revenues and profitability remain susceptible to volatility in demand from the underlying consumer sectors (primarily auto) and macro-economic environment. Further, intense competition in the Indian machine tool industry and pressure from domestic and foreign players limit BFW's pricing flexibility and margins to an extent.

Key rating drivers and their description

Credit strengths

Established track record in the machine tools industry and long-term association with clientele – BFW has an extensive track record spanning more than five decades in the Indian machine tool industry. The company's long presence in the industry and its strong technical and design capabilities enable it to provide customised machines to customers. It has a well-established relationship with its reputed clientele, which helps it in getting repeat orders to an extent. In addition, the company's revenues remain well diversified across its customer base with the top 10 customers accounting for around 16% of the company's revenues.

Healthy order book position – BFW's closing order book position stood at over Rs. 650.0 crore as on August 31, 2022 (was Rs. 520.0 crore as on March 31, 2021), supported by the OE segment, replacement demand and import substitution. The healthy order book provides revenue visibility for the next few quarters.

Comfortable capital structure and adequate coverage indicators – The company had a healthy capital structure with a gearing of 0.2 time due to its modest debt levels of Rs. 43.8 crore (including promoter loan of Rs. 13.8 crore) as on March 31, 2022. Its debt coverage metrics remain adequate with an interest coverage of 5.0 times and DSCR of 1.9 times in FY2022 (according to unaudited financials). Further, with no major debt-funded capex plans in the medium term, BFW's capital structure and debt coverage metrics are expected to remain comfortable, going forward.

Credit challenges

Earnings remain susceptible to volatility in demand from underlying consumer sectors – BFW's revenues and profitability remain susceptible to volatility in demand from the underlying consumer sectors (primarily auto) and macro-economic environment. In FY2019 and FY2020, the company' revenues and profitability declined due to demand contraction in the underlying consumer sectors, while the pandemic-induced lockdowns impacted revenues in FY2021. However, the company reported healthy topline growth of 56.1% in FY2022 to Rs. 788.8 crore (according to unaudited financials) and there was further improvement in YTD FY2023, with the company reporting a topline of Rs. 450 crore in 5M FY2023. Also, the company has an orderbook of over Rs. 650 crore as on August 31, 2022 providing revenue visibility for the next few quarters. The consolidation in the industry with shift in demand to organised players from unorganised players would support BFW's revenues over the medium term.

Modest margins amid intense competition – The company's operating margins remained modest at sub 6% since FY2019, impacted by stiff competition and limited pricing flexibility. However, there has been an improvement in YTD FY2023, with BFW's operating margins improving to 5.8% in 5M FY2023, as against 3.5% in FY2022 (according to unaudited financials), aided by improved operating leverage and cost-optimisation initiatives. The margin improvement is expected to sustain going forward as well, based on current trends.

Liquidity position: Adequate

BFW's liquidity profile remains adequate with average fund-based working capital utilisation at 9% of its drawing power and 12% of sanctioned limits for the 12-month period ended March 2022. The company had Rs. 60.4 crore undrawn fund-based working capital lines as on March 31, 2022. The company also had free cash and bank balances of Rs. 2.6 crore as on March 2022. Against this, the company has principal debt repayment obligations of Rs. 6.7 crore in FY2023, Rs. 8.8 crore in FY2024 and Rs. 2.1 crore in FY2025 for the existing term loans. Further, the company does not envisage any major debt-funded capex plans in the medium term. Overall, ICRA expects the company to meet its medium-term commitments through internal sources of cash and yet be left with a cash surplus.

Rating sensitivities

Positive factors – ICRA could upgrade BFW's ratings if its revenues and profitability improve on a sustained basis and it is able to maintain its comfortable debt protection metrics and liquidity position. Specific metrics that could lead to an upgrade include operating profit margin above 5.5% for FY2023.

Negative factors – The outlook on the long-term rating may be revised to stable or negative pressure on the ratings could arise in case of sustained demand slowdown in the end-user industries resulting in lower revenues, further affecting its profit margins. Deterioration in its debt protection metrics or liquidity would also be a negative factor. Specific metrics that could lead to a downgrade could be net debt/OPBITDA increasing above 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of Bharat Fritz Werner Limited and its subsidiaries, as mentioned in Annexure-2.

About the company

Bharat Fritz Werner Limited, established in 1961, is currently a leading producer of machine tools in India. It is part of the Kolkata-based Kothari Group. The company is involved in manufacturing CNC (computer numerical control) milling and turning machines. It supplies products primarily to customers in the auto sector, such as Maruti Suzuki India Ltd., Bharat Forge Limited, and Ashok Leyland Limited, among others. The company has three subsidiaries. The subsidiary—M2NXT Solutions Private Limited—incorporated in 2019, is a digital cyber automation solutions provider that provides solutions in connecting various processes for advanced manufacturing processes. The other subsidiary, BFW Asset Management GmbH, is involved in manufacturing small parts as well as in precision manufacturing and machining. The third subsidiary remains non-operational. BFW's manufacturing facilities are located at Peenya, Bangalore, and at Hosur, Tamil Nadu.

Key financial indicators

	FY2021 (Audited)	FY2022 (Unaudited)
Operating income	505.4	788.8
PAT	1.2	10.3
OPBDIT/OI	3.5%	3.5%
PAT/OI	0.2%	1.3%
Total outside liabilities/Tangible net worth (times)	1.1	1.5
Total debt/OPBDIT (times)	2.5	1.6
Interest coverage (times)	2.6	5.0

Source: Company, Annual Report and ICRA Research; Amount in Rs crore; All ratios are as per ICRA's calculations; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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 of June 30, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Sept 09, 2022	Jun 16, 2021	Oct 16,2020	Oct 01,2020	Aug 09,2019
1	**Cash Credit**	Long term	52.50	-	**[ICRA]A- (Positive)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Stable)**
2	**Term Loan**	Long term	16.38	16.38	**[ICRA]A- (Positive)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Stable)**
3	**Non-fund Based limits**	Short term	102.50	-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**
4	**Unallocated**	Long term	-	-	-	**[ICRA]A- (Stable)**	-	-	-
5	**Unallocated**	Long term/Short term	-	-	-	-	-	-	**[ICRA]A- (Stable)/ [ICRA]A2+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term fund-based – Term Loan	Simple
Short term Non-fund Based	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	52.50	[ICRA]A- (Positive)
NA	**Term Loan**	FY2020	NA	FY2026	16.38	[ICRA]A- (Positive)
NA	**Non-Fund Based limits**	NA	NA	NA	102.50	[ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
Excel Precision Manufacturing Limited	99.66%	Full Consolidation
M2NXT Solutions Private Limited	99.99%	Full Consolidation
BFW Asset Management GmBH	100.00%	Full Consolidation

Source: Company

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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