November 17, 2022

Bhuvaneswari Tex: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Term loans	4.15	3.64	[ICRA]BB+ (Stable); reaffirmed
Short-term – Fund based	16.60	15.60	[ICRA]A4+; reaffirmed
Short-term – Non-fund based	0.15	0.15	[ICRA]A4+; reaffirmed
Long-term/ Short-term – Fund-based - Unallocated	-	1.51	[ICRA]BB+(Stable)/ [ICRA]A4+; reaffirmed
Total	**20.90**	**20.90**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation considers the expected steady operating performance of Bhuvaneswari Tex (B-Tex) over the medium term, supported by the acquisition of a new clientele in both the domestic and the international markets and its adequate coverage metrics and liquidity position. The firm's operating performance improved in FY2022 albeit on a low base, aided by an improvement in demand from key customers post the second wave of the pandemic and improved realization.

Performance in FY2023 is likely to improve with a healthy order book position witnessed and repeat bulk orders received from key customers. ICRA notes on the increase in raw materials prices in H1 FY2023 but expects the margin to recover marginally in H2 FY2023 (FY2023 margins to be marginally lower than historical levels). B-Tex's coverage metrics and liquidity position are expected to remain at adequate levels supported by improved earnings from operations, decrease in debt levels, adequate working capital buffer and steady cash accruals.

The ratings remain constrained by the firm's small scale of operations, modest capital levels due to recurring withdrawals by promoters, high customer concentration and intense competition in fragmented nature of industry limiting its pricing flexibility.

The Stable outlook on the ratings reflects ICRA's opinion that the firm's performance will continue to benefit from its long track record of operations, and steady demand conditions witnessed, as illustrated by its order book position and extensive experience of the promoters.

Key rating drivers and their description

Credit strengths

Established business relationships with leading international retailers - The firm enjoys long relationship with its major customers, which supported its performance over the years. Besides, addition of new customers in the recent fiscals helped the firm in recovering the loss of business from a large customer. The entity lost its key customer in FY2020 but has been able to garner new domestic customers since then. While its customer concentration remains high with the top five customers contributing around 78% of its revenues in FY2022, an expected increase in orders from new customers added is likely to limit the dependence on these major customers.

Rich experience of promoters and diversified product base - The firm's operational profile remains supported by the rich experience of the promoters in the textile industry for over three decades. The company has a wide product portfolio, manufacturing kids wear, boys & girls wear, women's wear and men's wear and exporting it to its international clients. The risk of high customer concentration is mitigated to an extent by the firm's long relationship with some of its major customers. The firm has also acquired several new customers in FY2023, resulting in a diverse clientele.

Credit challenges

Moderate capitalisation profile – B-Tex has a moderate net worth base of Rs.16 crore as of year ended FY2022, where, given its constitution as a proprietorship firm, it remains exposed to the risk of capital withdrawal by its promoter, as seen over the years. The cumulative capital withdrawal over past three years stands at Rs.3.09 crore. The firm's leverage indicators and capitalisation metrics have remained at modest levels in FY2022, with total debt-to-operating profits and total outstanding liabilities to tangible net worth ratios at 3.0 times and 2.1 times, respectively owing to thin earnings from operations. The firm's coverage metrics remain at adequate levels and is expected to remain steady with the likely increase in revenues and earnings in the coming quarters.

Small scale of operations and intense competition – The size of the firm remains small, which limits its economies of scale and financial flexibility. Further, increased competition in a highly fragmented industry from other low-cost countries (like Bangladesh and Pakistan) limits pricing flexibility and exposes the earnings to volatile raw material prices and exchange rates. Although the company was able to pass on the part of the increase in raw material cost to some of its customers, they are still constrained on pricing flexibility.

Liquidity position: Adequate

Bhuvaneswari Tex's liquidity position is expected to remain adequate in the coming quarters, supported by relatively stable earnings from operations. The firm had a cash buffer including free cash reserves and unutilised lines of credit to the tune of ~Rs. 9.1 crore at the end of March 2022. The average monthly utilisation of working capital limits stood at ~55% for the 12-month period ended August 2022. Cash accruals are expected to be around Rs.2.7 crore in FY2023, against debt repayment obligations and capital expenditure combined worth ~Rs.0.68 crore. The company also has a capex of Rs.2 crore in FY2023 which is funded through sanctioned term loans of Rs.1.4 crore and the balance through cash accruals.

Rating sensitivities

Positive factors – ICRA may upgrade the firm's ratings if the entity witnesses a sustained improvement in its scale of operations and profitability to further enhance its competitive position, in addition to an improvement in its capital levels.

Negative factors – Pressure on the ratings may arise if there is a sustained pressure on the operating performance or a deterioration in the working capital cycle or any significant capital withdrawal by the promoters, which would adversely impact the firm's coverage metrics and liquidity position. Specific credit metrics that may lead to a rating downgrade include interest coverage of less than 2.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Indian Textile Industry - Apparels
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Bhuvaneswari Tex is a sole proprietorship firm, which commenced operations in 1975. The firm manufactures garments across a wide product range and exports to its customers in the US and European markets. The firm's overall capacity is around 8 lakh pieces per month and has captive embroidery and printing units.

Key financial indicators

Consolidated	FY2021	FY2022*
Operating income (Rs. crore)	60.5	72.4
PAT (Rs. crore)	1.8	1.9
OPBDIT/OI (%)	4.8%	5.1%
PAT/OI (%)	3.0%	2.7%
Total outside liabilities/Tangible net worth (times)	1.9	2.1
Total Debt/OPBDIT (times)	4.5	3.0
Interest coverage (times)	2.4	1.6

**Based on provisional results*
PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: Bhuvaneswari Tex

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

S. No	Instrument	Current rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Nov 17, 2022	Oct 22, 2021	Aug 27, 2020	Jul 23, 2019
1	Term loans	Long-term	3.64	3.64	**[ICRA]BB+ (Stable)**	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	Fund-based	Short-term	15.60	-	**[ICRA]A4+**	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
3	Non–Fund based	Short-term	0.15	-	**[ICRA]A4+**	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
4	Unallocated limits	Long-term/ Short-term	1.51	-	**[ICRA]BB+ (Stable)/ [ICRA] A4+**			[ICRA]A4+

Complexity level of the rated instrument

Instrument	Complexity Indicator

Fund-based – Term loans	Simple
Fund based – Short term	Very Simple
Non-fund based – Short term	Very Simple
Unallocated limits	NA

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: [Click Here]

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loans**	FY2021	NA	FY2026	3.64	[ICRA]BB+ (Stable)
NA	**Packing credit/ EBN**	NA	NA	NA	15.60	[ICRA]A4+
NA	**Bank guarantee**	NA	NA	NA	0.15	[ICRA]A4+
NA	**Unallocated**	NA	NA	NA	1.51	[ICRA]BB+ (Stable)/ [ICRA]A4+

Source: *VSP*

Annexure II: List of entities considered for consolidated analysis

NA

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About ICRA Limited:

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