

June 30, 2023

Beardsell Limited: Rating upgraded to [ICRA]BB+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fixed deposit	5.00	5.00	[ICRA]BB+ (Stable); upgraded from [ICRA]BB (Stable)
Total	5.00	5.00	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade of Beardsell Limited (BSL) factors in its increased scale of operations in FY2023 and improved liquidity position. BL's operating income increased by 24% to Rs. 232.4 in FY2023 from Rs. 187.4 crore in FY2022 as revenues from both the prefabricated and the packing divisions improved on account of higher volumes and realisation. The liquidity position improved with enhancement in working capital limits along with an equity infusion of Rs. 4.70 crore in May 2023. The rating also factors in the extensive experience of the promoters and the management of BSL of over two decades in the expanded polystyrene (EPS) packaging and engineering industry. BSL'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 7-14% in the last three years.

The rating is, however, constrained by moderate profitability indicators with operating margins of ~7-8% in the last two years. However, the absolute profits and cash accruals improved with the increase in scale in FY2023. 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 long-term rating reflects ICRA's belief that the company will continue to benefit from its extensive experience in 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 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 contributing to ~14% of its total sales in FY2023. Its long-term association with some customers has also led to repeat business for the company.

Improved revenues and liquidity - BL's operating income increased by 24% to Rs. 232.4 in FY2023 from Rs. 187.4 crore in FY2022 as revenues from both the prefabricated and the packing divisions improved on account of an increase in volumes and realisation. The liquidity position improved with enhancement in the working capital limits to Rs. 20.00 crore from Rs.14.75 crore in March 2023 along with an equity infusion of Rs. 4.70 crore in May 2023.

Credit challenges

Moderate profitability - The profitability remained moderate with operating margins of ~7-8% in the last two years. However, the absolute profits and cash accruals improved with the increase in scale in FY2023. The margins are highly volatile which broadly depend on the order inflows and raw material prices.

Exposed to raw material fluctuation risk - The company's margins 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 been volatile in the last few years and has stabilised in the recent 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 50.78% and 49.56% of the total revenues, respectively, in FY2023 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 the customers and can be volatile.

Environment and Social Risks:

Environmental risks arising from air pollutants in the manufacturing process and the non-bio-degradable nature of EPS pose challenges to entities operating in this segment. The industry is also subject to various regulations. The entity has a demonstrated track record of running its operations in accordance with the applicable health, safety and environmental regulations.

Liquidity position: Adequate

The liquidity position improved with enhancement in the working capital limits along with an equity infusion of Rs. 4.70 crore in May 2023. BSL's liquidity position is expected to remain adequate with positive cash flow from operations, moderate working capital utilisation and unencumbered cash and cash equivalent of ~Rs. 4.80 crore as on March 31, 2023. The working capital utilisation has remained moderate at 65% in the last 12 months ended March 31, 2023. BSL has repayment obligations of Rs. 1.82 crore in FY2024 and Rs. 1.61 crore in FY2025 for the existing loans. The repayment obligations would be comfortably met from the cash accruals. In addition, BSL has capex plans of Rs. 3.00 crore in FY2024 and Rs. 2.00 crore in FY2025 which would be funded from internal accruals.

Rating sensitivities

Positive factors – The rating can be upgraded if the company demonstrates a substantial improvement in revenue and profitability while maintaining its working capital cycle and liquidity position.

Negative factors – The rating can be downgraded in case of substantial decline in revenues and profitability and deterioration in the working capital cycle and liquidity position. Specific credit metrics for downgrade includes interest coverage of less than 2.8 times on a sustained basis.

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. The details of the same 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 application 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 the electric motors of Siemens 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)

BL Consolidated	FY2022	FY2023
Operating income	187.4	232.4
PAT	3.0	8.5
OPBDIT/OI	7.4%	7.8%
PAT/OI	1.6%	3.7%
Total outside liabilities/Tangible net worth (times)	1.5	1.6
Total debt/OPBDIT (times)	2.0	2.0
Interest coverage (times)	2.9	4.4

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	Type	Amount rated (Rs. crore)	Current rating (FY2024)		Chronology of rating history for the past 3 years							
			Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023				Date & rating in FY2022		Date & rating in FY2021	
					June 30, 2023	Dec 20, 2022	June 29, 2022	June 07, 2022	Apr 18, 2022	Mar 29, 2022	Apr 07, 2021	Jul 31, 2020
1	Fixed deposit	5.00	-	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	MB+ (Stable)	MB+ (Stable)	MB+ (Stable)	MB+ (Stable)
2	Long term loan	-	-	-	-	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-	-	-
3	Cash credit	-	-	-	[ICRA]BB (Stable); Withdrawn	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-	-	-
4	Working capital term loan	-	-	-	[ICRA]BB (Stable); Withdrawn	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-	-	-
5	Working capital demand loan	-	-	-	[ICRA]BB (Stable); Withdrawn	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-	-	-
6	Letter of credit	-	-	-	[ICRA]A4; Withdrawn	[ICRA]A4	[ICRA]A4	[ICRA]A4	-	-	-	-
7	Bank guarantees	-	-	-	[ICRA]A4; Withdrawn	[ICRA]A4	[ICRA]A4	[ICRA]A4	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - 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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fixed deposits	NA	NA	NA	5.00	[ICRA]BB+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	BL Ownership	Consolidation Approach
Sarovar Insulation Pvt. Ltd.	100%	Full Consolidation
Saideep Polythermal	100%	Full Consolidation

Source: BSL annual report FY2022

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

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