August 10, 2023

Bharat Fritz Werner Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	52.50	65.50	[ICRA]A- (Stable); reaffirmed/ assigned for enhanced amount
Long-term Fund-based – Term Loan	11.30	158.72	[ICRA]A- (Stable); reaffirmed/ assigned for enhanced amount
Short-term Non-fund Based	102.50	94.50	[ICRA]A2+; reaffirmed
Long term - Unallocated Limits	5.08	0.66	[ICRA]A- (Stable); reaffirmed
Total	**171.38**	**319.38**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings outstanding on Bharat Fritz Werner Limited (BFW/the company) continue to positively factor in the company's extensive track record in the Indian machine tool industry spanning more than six decades, its strong technical and design capabilities, well-established client relationships and its diversified customer base. The company witnessed a sharp 44% YoY improvement in operating income, which stood at Rs. 1,136.9 crore in FY2023. The demand momentum remained healthy in Q1 FY2024 as well, and BFW had an order book of over Rs. 850.0 crore as on June 30, 2023. While the healthy order book provides revenue visibility for the next few quarters, the favourable medium-term demand outlook, supported by factors like anticipated domestic capex upcycle, replacement demand, import substitution and healthy export potential, augur well for the company going forward.

However, the ratings are constrained by the expectation of moderation of debt metrics in FY2024, because of the ongoing debt-funded capital expenditure. The company is enhancing its capacity vide a manufacturing facility in Hosur, Tamil Nadu, with a capex outlay of over Rs. 140.0 crore during FY2023-FY2024, apart from its regular maintenance capex. Of this, Rs. 100-110 crore is yet to be incurred in FY2024. A large part of the capex is debt-funded, and this is expected to moderate the debt coverage metrics in the near-term. Also, the company's operating margins in FY2023[1] were lower at 3.7% compared to ICRA's expectations impacted by stiff competition and limited pricing flexibility. While ICRA notes that the margins have improved to 7.3% in Q1 FY2024, aided by a favourable product mix and improved operating leverage, the sustenance of the same remains to be seen. The company also had relatively high creditors and its Total outside liabilities (TOL)/Tangible net worth (TNW) was at relatively high levels of 1.9x as on March 31, 2023. Improvement in both TOL/TNW and creditor days is a critical monitorable.

Key rating drivers and their description

Credit strengths

Established presence in the machine tools industry – BFW has an extensive track record in the Indian machine tool industry spanning more than six decades. 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 only around 17% of the company's revenues in FY2023.

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[1] unaudited

Strong revenue growth in FY2023; healthy order book position and demand outlook – The company witnessed a significant improvement of 44% YoY in operating income and reported Rs. 1,136.9 crore in FY2023 as against Rs. 792.0 crore in FY2022. The revenue growth was supported by a confluence of factors including domestic original equipment manufacturer (OEM) and replacement demand, import substitution and pick-up in exports. The demand momentum remained healthy in Q1 FY2024 as well, and BFW had an order book of over Rs. 850 crore as on June 30, 2023. While the healthy order book provides revenue visibility for the next few quarters, the favourable medium-term demand outlook, supported by factors like anticipated domestic capex upcycle, replacement demand, import substitution and healthy export potential, augur well for the company going forward.

Credit challenges

Significant debt funded capex plans in FY2023 and FY2024; moderate capitalisation and coverage indicators – The company is enhancing its capacity vide a manufacturing facility in Hosur, Tamil Nadu, with a capex outlay of over Rs. 140.0 crore during FY2023-FY2024, apart from its regular maintenance capex. Of this, Rs. 100-110 crore is yet to be incurred in FY2024. A large part of the capex is debt-funded, and this is expected to moderate the debt coverage metrics in the near-term. Its debt/OPBDITA stood at 2.2 times as on March 31, 2023, while its interest coverage stood at 5.0 times for FY2023. However, ICRA notes that the capacity expansion is critical, given the healthy demand prospects and high capacity utilisation in existing facilities. Further, the loans availed have an elongated tenor of 8 years, easing cash outflows to an extent. Also, the debt metrics are expected to gradually improve once the capex is completed and revenues from the incremental capacity scale up.

Relatively thin margins – The company's operating margins have remained in the 3-4% range since FY2020, impacted by stiff competition and limited pricing flexibility. While ICRA notes that the margins have improved to 7.3% in Q1 FY2024, aided by a favourable product mix and improved operating leverage, the sustenance of the same remains to be seen. Also, while BFW's profit margins remain susceptible to volatility in demand from the underlying consumer sectors (primarily auto) and macro-economic environment, the healthy demand outlook mitigates the risk to an extent.

ICRA notes that BFW's operations necessitates higher levels of stocking requirements of raw material and spare parts, given the relatively long gestation period of manufacturing machine tools. Accordingly, the payment to creditors is elongated leading to low current ratio and high Total outside liabilities (TOL) to Tangible networth (TNW) position, which was at relatively high levels of 1.9x as on March 31, 2023. While the ongoing capex is debt-funded, the company has not drawn the entire sanctioned limits of term loans leading to temporary mismatch in asset-liability position. ICRA expects the same to be corrected over the medium-term.

Liquidity position: Adequate

BFW's liquidity profile remains adequate supported by its anticipated cash flows from operations, undrawn fund-based working capital lines of Rs. 22.4 crore and undrawn term loans of Rs. 90.3 crore as of March 31, 2023. BFW's average fund-based working capital utilisation was 49% of its sanctioned limits for the period April 2022 to March 2023. The company also had free cash and bank balances of Rs. 1.5 crore as on March 2023. Against this, the company has capex plans of Rs. 100-110 crore in FY2024 relating to capacity expansion in Hosur, Tamil Nadu, apart from its regular maintenance capex. The capex is expected to be funded partly by debt (tied up) and remaining through internal accruals. The company has principal repayments of Rs. 11.7 crore in FY2024, Rs. 8.7 crore in FY2025 and Rs. 14.6 crore in FY2026 on its existing and sanctioned loans.

Rating sensitivities

Positive factors – ICRA could upgrade BFW's ratings if its revenues and profitability improve on a sustained basis, resulting in material improvement in debt protection metrics and liquidity position. Specific metrics that could lead to an upgrade include operating profit margin above 5.5% on a sustained basis.

Negative factors – Negative pressure on the ratings could arise in case of sustained demand slowdown in the end-user industries resulting in material contraction in revenues, earnings and cashflows. Inability to improve capitalisation and coverage metrics (including Total outside liabilities to tangible networth), and liquidity position on a sustained basis could also result in a negative rating action. Specific metrics that could lead to a downgrade would 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 is 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 facility is located at Peenya, Bangalore, and the company is setting up another one in Hosur, Tamil Nadu.

Key financial indicators

Consolidated	FY2022 (Audited)	FY2023 (Unaudited)
Operating income	792.0	1,136.9
PAT	10.2	18.4
OPBDIT/OI	3.3%	3.7%
PAT/OI	1.3%	1.6%
Total outside liabilities/Tangible net worth (times)	1.5	1.9
Total debt/OPBDIT (times)	1.7	2.2
Interest coverage (times)	4.8	5.0

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Financial ratios are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2024)					Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Aug 10, 2023	Jul 31, 2023	Sep 09, 2022	Jun 16, 2021	Oct 16,2020	Oct 01,2020
1	Cash Credit	Long term	65.50	--	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)
2	Term Loan	Long term	158.72	50.45	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)
3	Non-fund Based limits	Short term	94.50	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Unallocated	Long term	0.66	--	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	-	-

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
Long term - Unallocated	Not Applicable

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	**Long-term Fund-based – Cash Credit**	NA	NA	NA	65.50	[ICRA]A- (Stable)
NA	**Long-term Fund-based – Term Loan**	FY2020	8.10%-8.75%	FY2026-FY2031	158.72	[ICRA]A- (Stable)
NA	**Short-term Non-fund Based**	NA	NA	NA	94.50	[ICRA]A2+
NA	**Long term - Unallocated Limits**	NA	NA	NA	0.66	[ICRA]A- (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

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

Source: Company

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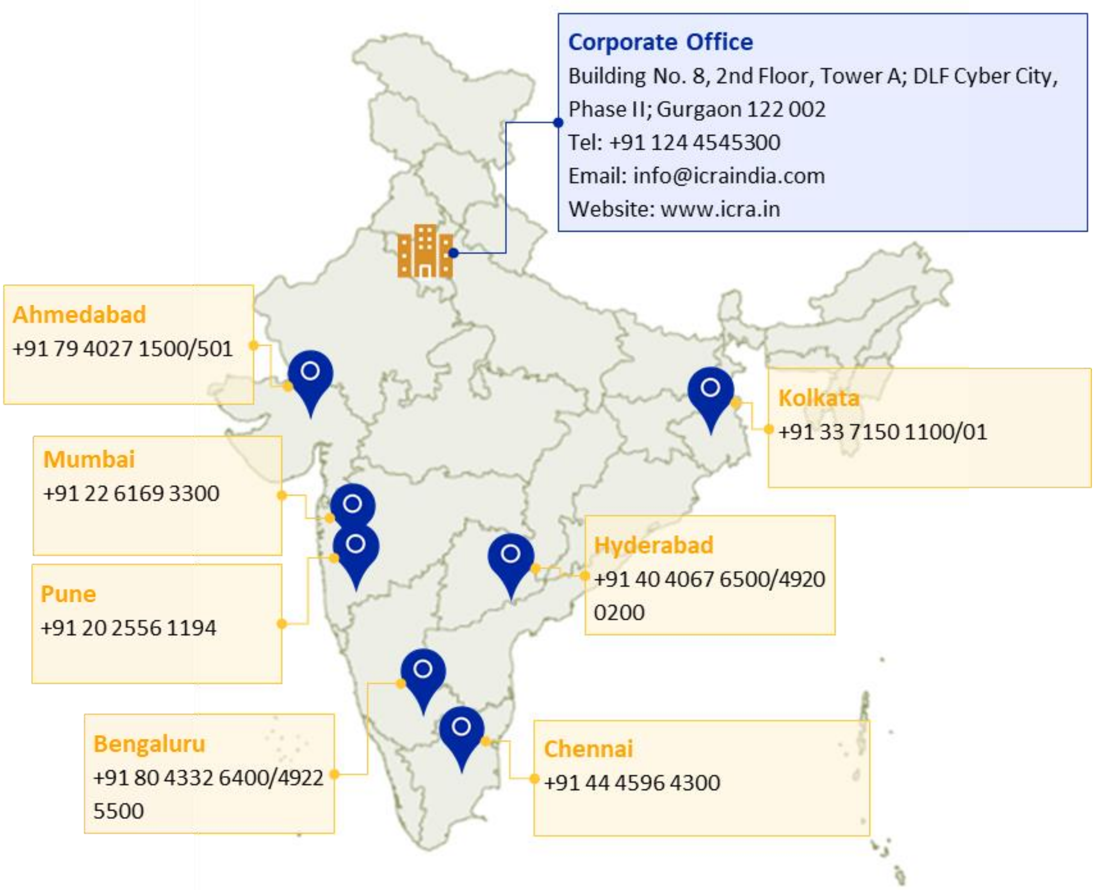

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