October 03, 2023

Bhavani Industries: 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	11.00	15.00	[ICRA]BBB (Stable); reaffirmed; assigned for enhanced amount
Long term – Fund-based -Term loan	4.00	35.60	[ICRA]BBB (Stable); reaffirmed; assigned for enhanced amount
Short term – Interchangeable-Others	(5.00)	(5.00)	[ICRA]A3+; reaffirmed
Total	**15.00**	**50.60**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings continues to factor in Bhavani Industries' (BI) operational track record, its established position in the precision machined components industry and the strong technical background of the promoters. The ratings favourably note the company's established relationship with reputed customers from various sectors such as automobile, general engineering, electronics, etc in India and abroad along with a track record of repeat orders. Further, the ratings consider a steady revenue growth with improved order inflow and execution in FY2023 and the current fiscal. ICRA also notes BI's favourable financial profile, characterised by a comfortable capital structure and healthy debt protection metrics.

The ratings, however, remain constrained by BI's moderate scale of operations with high sectoral and customer concentration risk. The ratings also consider the exposure of the firm's profit to the fluctuations in raw material prices and exchange rates. However, the presence of price-escalation clause in most of its customer contracts mitigates the risk to an extent. The ratings also factor in the risk of capital withdrawal associated with a partnership firm.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the firm will continue to maintain its credit profile with a sustained improvement in revenue while maintaining healthy margins and an adequate liquidity position.

Key rating drivers and their description

Credit strengths

Established presence and reputed client base - Bhavani Industries is an established player with a track record of over 25 years in manufacturing precision components, characterised by quality focus and the strong technical background of its promoters. The clientele comprises renowned players across industries such as automobile and general engineering in India and abroad. The firm has established relationships with key customers that ensure repeat business. Given the reputed clientele, the counterparty risk is mitigated as well. The firm derives a portion of its revenues from exports to the US and Europe.

Comfortable financial risk profile - BI's financial profile remains favourable with a comfortable capital structure and healthy coverage indicators. Its capital structure, characterised by total debt/tangible net worth, stood at 0.8 times as on March 31, 2023. The company had availed a term loan of Rs. 11.4 crore in FY2023 to purchase plant and machinery that enabled the firm to execute orders for the non-automotive segments. The profitability remains healthy, aided by high value addition in the precision machining segment which translates into healthy debt protection metrics, reflected in an interest coverage of 5.5

times and TD/OPBDITA of 1.4 times in FY2023. The firm plans to have moderate debt-funded capex plans in FY2024 and FY2025. Nevertheless, with the expected improvement in scale and healthy profit margins, the capital structure and coverage metrics are likely to remain comfortable.

Healthy profit margins - The firm's scale of operations rose to Rs. 117 crore in FY2023 from Rs. 70 crore in FY2021 on the back improved demand in the automobile segment. The contribution from the automobile sector improved to 59% in FY2023 from 49% in FY2022. Besides, a revival in orders from its general engineering customers supported its revenues in Q1 FY2024. The firm in expected to maintain the momentum in revenue growth in FY2024, backed by new capacity addition and order inflows in the automotive and non-automotive segments. The operating margins have remained healthy at 18-19% in the last couple of years and are expected to remain at similar levels.

Credit challenges

Modest scale of operations with high customer and sectoral concentration – The firm's operating income improved to Rs. 117.4 crore in FY2023. However, the operating income continues to be modest with a net worth base of Rs. 36.9 crore as on March 31, 2023, which limits the financial flexibility and benefits from economies of scale. The company caters to both domestic and international markets, facing competition from other large and mid-sized players. Further, the top five customers accounted for 52% and 61% of its revenues in FY2023 and Q1 FY2024, respectively, exposing the firm to high customer concentration risk. Nonetheless, its established tie-ups with key customers ensure repeat orders and mitigate the risk to an extent. The sectoral concentration risk is also high as the automotive sector contributed to 59% and 56% of the revenue in FY2023 and Q1 FY2024, respectively. However, the firm is steadily improving its sectoral diversification and adding new clients.

Susceptibility of profit margins to raw material price fluctuations - The firm's profit margins are exposed to raw material price fluctuations. Nonetheless, the presence of a price escalation clause in most of its customer contracts mitigates the risk to an extent. Also, the firm passes on the increase in the raw material prices to its customers to a great extent but with a lag. Besides, with ~19% of its revenues derived from exports, the earnings are susceptible to foreign exchange rate fluctuation risk.

Risks associated with a partnership firm - The firm is exposed to the risks arising from its partnership nature, including the risk of capital withdrawal. Nevertheless, limited withdrawals by the partners, as seen in the past, provide comfort to an extent.

Liquidity position: Adequate

The company's liquidity profile is adequate, characterised by sufficient buffer in its working capital facilities and moderate free cash and bank balances. The working capital utilisation has been moderate, with an average utilisation of ~24% in the past 12 months ended July 2023. The company has adequate cushion in its cash credit limits of ~Rs. 11.8 crore as of July 2023 in the form of undrawn bank lines and adequate generation of cash flow against the aligned repayments of ~Rs. 9-10 crore in FY2024 and FY2025.

Rating sensitivities

Positive factors – ICRA could upgrade BI's ratings if the firm achieves a significant growth in scale while sustaining healthy profitability and capital structure and maintaining adequate liquidity.

Negative factors – Pressure on the ratings could arise if there is a significant decline in the company's revenue or profitability, resulting in weak debt protection metrics. The ratings could also be downgraded if there is a higher-than-anticipated debt funded capital expenditure and/or adverse movements in working capital indicators, resulting in a stretched liquidity position. Specific credit metrics that may result in a downgrade include TD/OPBITDA of more than 2.5 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 standalone financial statements of the company

About the company

Bhavani Industries, established in 1987, is a partnership firm involved in the manufacturing and supply of a wide range of precision machined components used in various products and sub-assemblies. The firm's operations are driven by the managing partner, Mr. A. J. Hegde, who has more than 25 years of experience in the machine-tooling industry. It manufactures precision-machined components for automobiles, electronics, healthcare, domestic appliance industries etc. made of raw materials such as aluminium, brass, and steel.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	103.6	117.4
PAT	6.0	7.4
OPBDIT/OI	18.4%	18.7%
PAT/OI	5.8%	6.3%
Total outside liabilities/Tangible net worth (times)	1.4	1.2
Total debt/OPBDIT (times)	1.5	1.4
Interest coverage (times)	6.2	5.5

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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 03, 2023	Dec 29, 2022	Dec 03, 2021	Oct 15, 2020
1	Fund based-Cash credit	Long-Term	15.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Fund based-Term loan	Long-Term	35.60	27.07	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Interchangeable	Short-Term	(5.00)	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
4	Unallocated	Long-Term/ Short-Term	0.00	-	-	-	[ICRA]BBB (Stable)/ [ICRA]A3+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Term loan	Simple
Interchangeable	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	**Cash credit**	NA	NA	NA	15.00	[ICRA]BBB (Stable)
NA	**Term loan**	March 2021	NA	March 2029	35.60	[ICRA]BBB (Stable)
NA	**Interchangeable**	NA	NA	NA	(5.00)	[ICRA]A3+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Sanket Thakkar
+91 79 4027 1528
sanket.thakkar@icraindia.com

Kaladi Rithvik
+91 95 9993 1097
kaladi.rithvik@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches