October 11, 2024

Besmak Components Private Limited: [ICRA]BBB(Stable)/[ICRA]A3+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based - Term Loan	6.59	[ICRA]BBB(Stable); assigned
Long-term-fund based – Cash credit	18.00	[ICRA]BBB(Stable); assigned
Short-term-Non fund based – LC/BG	10.00	[ICRA]A3+; assigned
Long Term/Short Term – Unallocated	0.41	[ICRA]BBB(Stable)/[ICRA]A3+; assigned
Total	**35.00**	

Instrument details are provided in Annexure-I

Rationale

The ratings assigned to the bank facilities of Besmak Components Private Limited (BCPL) factor in the company's stable credit profile, as reflected by its healthy margins and comfortable debt metrics, and the expectation that the same would be sustained over the near to medium term. The company reported healthy operating margins of 18.8% in FY2024[1] (PY: 14.2% in FY2023), aided by its value addition and benefits from operating leverage and periodic cost optimisation measures undertaken. Its debt metrics are comfortable with total debt / OPBITDA of 0.5x in FY2024 (FY2023: 0.5x) and interest coverage of 16.9x in FY2024 (FY2023: 13.4x), aided by gradual improvement in accruals and absence of significant debt-funded capex in the past. ICRA expects the debt metrics to remain comfortable over the medium term, albeit some moderation due the expected debt-funded capex for capacity expansion, upgradation and maintenance. The ratings also favourably factor in BCPL's reputed clientele comprising tier-I auto component suppliers and its diversified customer base. The company has been getting repeat orders from its customers and has been able to expand its clientele periodically. The company has been in existence for over three decades, and its management team has extensive experience in the auto component industry.

The ratings are, however, constrained by BCPL's relatively modest scale, its relatively high debt-funded capex plans and segment concentration. BCPL reported modest operating income of Rs. 226.4 crore in FY2024. Nevertheless, the company reported a revenue CAGR growth of 22% for the period FY2020-FY2024, aided by improvement in auto industry volumes, import substitution and increase in value addition among others. Despite healthy margins, the modest scale has resulted in relatively moderate net worth for the company, which stood at 86.9 crore as of March 31, 2024. Also, the company has significant capex plans of Rs. 35 crore in FY2025, Rs. 50 crore each in FY2026 and FY2027 respectively, a large part of which is expected to be debt-funded. This is expected to moderate debt metrics from current levels. Also, its margins could be vulnerable to volatility in raw material prices, although the negotiation-based pass-throughs for raw materials price mitigates the risk to an extent.

The stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile, supported by business profile and cash accruals.

Key rating drivers and their description

Credit strengths

Healthy profit margins and comfortable debt metrics – The company reported healthy operating margins of 18.8% in FY2024 (PY: 14.2% in FY2023), aided by its value addition and benefits from operating leverage and periodic cost optimisation

[1] Unaudited

measures undertaken. Its debt metrics are comfortable with total debt / OPBITDA of 0.5x in FY2024[2] (FY2023: 0.5x) and interest coverage of 16.9x in FY2024 (FY2023:13.4x), aided by gradual improvement in accruals and absence of significant debt-funded capex in the past. ICRA expects the debt metrics to remain comfortable over the medium term, albeit some moderation due the expected debt-funded capex for capacity expansion, upgradation and maintenance.

Diversified customer base and periodic addition of customers – The company's customer base comprises reputed tier-I auto component suppliers such as Uno Minda Limited (rated [ICRA]AA+ (Stable)/[ICRA]A1+), Samvardhana Motherson International Limited (rated [ICRA]AAA(Stable)/[ICRA]A1+) and Visteon Electronics India Private Limited, among others. Further, it is diversified with top 10 customers contributing to ~60% of the total revenues in FY2024, mitigating risks arising from loss of customer to competition and slowdown in orders from top customers to an extent. The company has also been getting repeat orders from its customers and has been able to expand its clientele periodically.

Experienced management team – The company has been in existence for over three decades, and the promoters are involved in the day-to-day operations of the business. BCPL also has an experienced management team with extensive experience in the auto component industry. This has aided in expanding the business over the years, with repeat orders, expansion of product portfolio and periodic addition of clients.

Credit challenges

Modest scale of operations and low net worth – BCPL reported modest operating income of Rs. 226.4 crore in FY2024. Nevertheless, the company reported a revenue CAGR growth of 22% for the period FY2020-FY2024, aided by improvement in auto industry volumes, import substitution and increase in value addition among others. Despite healthy margins, the modest scale has resulted in relatively moderate net worth for the company, which stood at 86.9 crore as on March 31, 2024.

Significant debt-funded capex plans - The company has capex plans of Rs. 35 crore in FY2025, Rs. 50 crore each in FY2026 and FY2027 respectively towards capacity expansion, upgradation and maintenance. A large part of the capex is expected to be debt-funded, although the loans are yet to be tied-up. While the capex is expected to moderate debt metrics from current levels, it is expected to remain comfortable. ICRA notes that the capex is required for the company to improve its market share and capturing the opportunities in the business.

High segment concentration– The company has relatively high segment concentration with 70% of revenues in FY2024 from the 2W segment. Further, its revenues are entirely from the domestic market. This exposes the company to risks arising from downturns in the Indian 2W segment. However, the company is gradually increasing its presence in the CV, PV and non-auto segments which could mitigate the risk to some extent. The ability to achieve material segment diversification over the medium term, however, remains a monitorable.

Susceptibility of margins to volatility in raw material prices – BCPL's margins are susceptible to variations in commodity prices. However, the company's practice of negotiation-based pass-throughs for raw materials price increases, has historically capped the moderation in margins. Also, BCPL has benefitted from improved operating leverage and periodic cost-optimisation measures, and these are likely to continue going forward as well. The company's revenues are also susceptible to the cyclicality of the auto industry and competition from imports, akin to other industry players, although company's ability to demonstrate revenue growth and add customers periodically over the years, provides comfort.

Liquidity position: Adequate

BCPL's liquidity position is adequate stemming from its anticipated cash accruals from the business, unencumbered cash and bank balances of Rs. 18.4 crore as of March 31, 2024 and moderate utilisation of working capital facilities in the last 12 months. Against these sources of cash, the company has significant capex plans of Rs. 35 crore in FY2025, Rs. 50 crore each in FY2026 and FY2027 respectively towards capacity expansion, upgradation and maintenance. A large part of the capex is expected to

[2] Unaudited

be debt-funded, although the loans are yet to be tied-up. Further, the company has repayment obligations of Rs. 4.1 crore in FY2025, Rs. 3.0 crore in FY2026, Rs. 2.7 crore in FY2027 respectively on its existing loans.

Rating sensitivities

Positive factors – The rating could be upgraded if the company demonstrates sustained and material increase in scale of operations, while sustaining its healthy debt protection metrics, margins and liquidity position.

Negative factors – The rating could be downgraded, if there is sustained deterioration in its earnings and significant rise in debt leading to weakening of coverage metrics and liquidity position. Specific trigger for downgrade is DSCR < 1.5 times on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated

About the company

Besmak Components Private Limited ('Besmak'/the company) was incorporated in 1994 by Mr. C.N. Hari, a first generation entrepreneur and is currently run by Ms. Hema Hari (his wife) and Mr. R. Rajesh, after his passing. The company is a tier-II auto component supplier and has three major product segments – connectors, engineering products and stamping products which contributed 67%, 25% and 8% respectively to the FY2024 revenues. It supplies largely to the domestic OEM segment and 70% of its revenues in FY2024 were from 2W. The company has a wholly-owned subsidiary, CNH Moulds Private Limited, which is a tool manufacturer. The company has manufacturing facilities in Oragadam (near Chennai), Ambattur (Chennai) and Sanand (Gujarat).

Key financial indicators

BCPL Consolidated	FY2023 (Audited)	FY2024 (Unaudited)
Operating income	182.3	226.4
PAT	13.7	25.7
OPBDIT/OI	14.2%	18.8%
PAT/OI	7.5%	11.3%
Total outside liabilities/Tangible net worth (times)	0.9	1.1
Total debt/OPBDIT (times)	0.9	0.9
Interest coverage (times)	13.4	16.9

Source: Company, ICRA Research; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; 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

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Oct 11, 2024	Date	Rating	Date	Rating	Date	Rating
Term Loan	Long Term	6.59	[ICRA]BBB (Stable)	-	-	-	-	-	-
Cash credit	Long Term	18.00	[ICRA]BBB (Stable)	-	-	-	-	-	-
LC/BG	Short Term	10.00	[ICRA]A3+	-	-	-	-	-	-
Unallocated	Long Term/ Short Term	0.41	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based - Term Loan	Simple
Long-term-fund based – Cash credit	Simple
Short-term-Non fund based – LC/BG	Very Simple
Long Term/Short 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	**Term Loan**	FY2020	7.35%-9.50%	FY2029	6.59	[ICRA]BBB(Stable)
NA	**Cash credit**	NA	NA	NA	18.00	[ICRA]BBB(Stable)
NA	**LC/BG**	NA	NA	NA	10.00	[ICRA]A3+
NA	**Unallocated**	NA	NA	NA	0.41	[ICRA]BBB(Stable)/[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

Company Name	BCPL Ownership	Consolidation Approach
CNH Moulds Private Limited	100.00%	Full Consolidation

Source: Company

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Srikumar K
+91 44 4596 4318
ksrikumar@icraindia.com

Vinutaa S
+91 44 4596 4305
Vinutaa.s@icraindia.com

Sriraman Mohan
+91 44 4596 4316
sriraman.mohan@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