November 21, 2024 (Revised)

Bhavani Industries: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Long term – Fund-based – Cash credit	15.00	18.00	[ICRA]BBB (Stable); reaffirmed
Long term – Fund-based -Term loan	35.60	32.60	[ICRA]BBB (Stable); reaffirmed
Short term – Interchangeable-Others	(5.00)	(16.00)	[ICRA]A3+; reaffirmed
Total	**50.60**	**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 FY2024 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 firm's profit is also exposed 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 withdrawals associated with a partnership firm.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the firm is likely to sustain its operating metrics. Further, the outlook underlines ICRA's expectation that the firm's incremental capex, which will help expand the capacity, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

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 also 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 stood at 1.2 times as on March 31, 2024. The company had availed a term loan of Rs.

19.0 crore in FY2024 to purchase plant and machinery that enabled it 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 comfortable debt protection metrics, reflected in an interest coverage of 5.8 times and TD/OPBDITA of 1.8 times in FY2024. The firm does not have any debt-funded capex plans in FY2025 and plans to have moderate debt-funded capex in FY2026 and FY2027. Nevertheless, the capital structure and coverage metrics are likely to remain comfortable with an expected improvement in scale and healthy profit margins.

Healthy profit margins - The firm's scale of operations increased to Rs. 134 crore in FY2024 from Rs. 117 crore in FY2023 on the back of improved demand in the domestic as well as the export markets. The firm expects to maintain the momentum in revenue growth in FY2025, backed by new capacity addition and order inflows in the automotive and non-automotive segments. The operating margins have remained healthy at around 21% in FY2024 and are expected to remain at similar levels going forward as well.

Credit challenges

Modest scale of operations with high customer and sectoral concentration – The firm's operating income improved to Rs. 134.4 crore in FY2024 from Rs. 117.4 crore in FY2023. However, the operating income continues to be modest with a net worth base of Rs. 40.9 crore as on March 31, 2024, which limits the financial flexibility and benefits from the 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 62% of its revenues in FY2024 and 5M FY2025 as well, 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 50% to the revenue in FY2024 and 45% in 5M FY2025. 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 21-22% 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 withdrawals. 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 ~40% in the past 12 months ended August 2024. The company has adequate cushion in its cash credit limits of ~Rs. 8.2 crore as of August 2024 in the form of undrawn bank lines and adequate generation of cash flow against the aligned repayments of ~Rs. 10 crore in FY2025.

Rating sensitivities

Positive factors – ICRA could upgrade BI's ratings if the firm achieves a significant growth in its 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 large 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 (BI), 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, medical and healthcare, aerospace, domestic appliance industries etc., made of raw materials such as aluminum, brass and steel.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	117.4	134.4
PAT	7.4	8.1
OPBDIT/OI	18.7%	20.9%
PAT/OI	6.3%	6.1%
Total outside liabilities/Tangible net worth (times)	1.2	1.6
Total debt/OPBDIT (times)	1.4	1.8
Interest coverage (times)	5.5	5.8

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

Current (FY2025)					Chronology of rating history for the past 3 years					
					FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Outstanding amount (Rs. crore)	Nov 21, 2024	Date	Rating	Date	Rating	Date	Rating
Short term – Others - Interchangeable	Short term	(16.00)	-	[ICRA]A3+	03-OCT-2023	[ICRA]A3+	29-DEC-2022	[ICRA]A3+	03-DEC-2021	[ICRA]A3+
Long term - Term loan – Fund-based	Long term	32.60	32.60	[ICRA]BBB (Stable)	03-OCT-2023	[ICRA]BBB (Stable)	29-DEC-2022	[ICRA]BBB (Stable)	03-DEC-2021	[ICRA]BBB (Stable)
Long term - Cash credit – Fund-based	Long term	18.00	-	[ICRA]BBB (Stable)	03-OCT-2023	[ICRA]BBB (Stable)	29-DEC-2022	[ICRA]BBB (Stable)	03-DEC-2021	[ICRA]BBB (Stable)
Unallocated	Long Term/ Short Term	0.00	-	-	03-OCT-2023	-	29-DEC-2022	-	03-DEC-2021	[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	18.00	[ICRA]BBB (Stable)
NA	TL – 1 (Citi Bank)	June 2022	NA	January 2026	0.67	[ICRA]BBB (Stable)
NA	TL – 2 (Citi Bank)	June 2022	NA	March 2026	0.93	[ICRA]BBB (Stable)
NA	TL – 3 (Citi Bank)	January 2023	NA	January 2027	1.69	[ICRA]BBB (Stable)
NA	TL – 4 (Citi Bank)	July 2023	NA	July 2027	2.75	[ICRA]BBB (Stable)
NA	TL – 1 (SIDBI)	November 2020	NA	October 2025	0.15	[ICRA]BBB (Stable)
NA	TL – 2 (SIDBI)	December 2020	NA	May 2026	0.81	[ICRA]BBB (Stable)
NA	TL – 3 (SIDBI)	February 2021	NA	February 2026	0.53	[ICRA]BBB (Stable)
NA	TL – 4 (SIDBI)	June 2021	NA	June 2027	2.12	[ICRA]BBB (Stable)
NA	TL – 5 (SIDBI)	December 2021	NA	May 2025	0.32	[ICRA]BBB (Stable)
NA	TL – 6 (SIDBI)	March 2022	NA	March 2027	0.87	[ICRA]BBB (Stable)
NA	TL – 7 (SIDBI)	November 2022	NA	May 2027	2.87	[ICRA]BBB (Stable)
NA	TL – 8 (SIDBI)	December 2022	NA	November 2025	0.23	[ICRA]BBB (Stable)
NA	TL – 9 (SIDBI)	March 2023	NA	March 2026	1.27	[ICRA]BBB (Stable)
NA	TL – 10 (SIDBI)	September 2023	NA	September 2025	0.07	[ICRA]BBB (Stable)
NA	TL – 11 (SIDBI)	September 2023	NA	March 2028	7.35	[ICRA]BBB (Stable)
NA	TL – 12 (SIDBI)	February 2024	NA	February 2028	7.47	[ICRA]BBB (Stable)
NA	TL – 13 (SIDBI)	March 2024	NA	April 2028	2.50	[ICRA]BBB (Stable)
NA	Interchangeable	NA	NA	NA	(16.00)	[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

Corrigendum

Document dated November 21, 2024 has been corrected with revision as detailed below:

Change has been made on page no. 4 – “Rating History table” where rating for “unallocated” limits was erroneously missed and the same have been added now as “row 4”.

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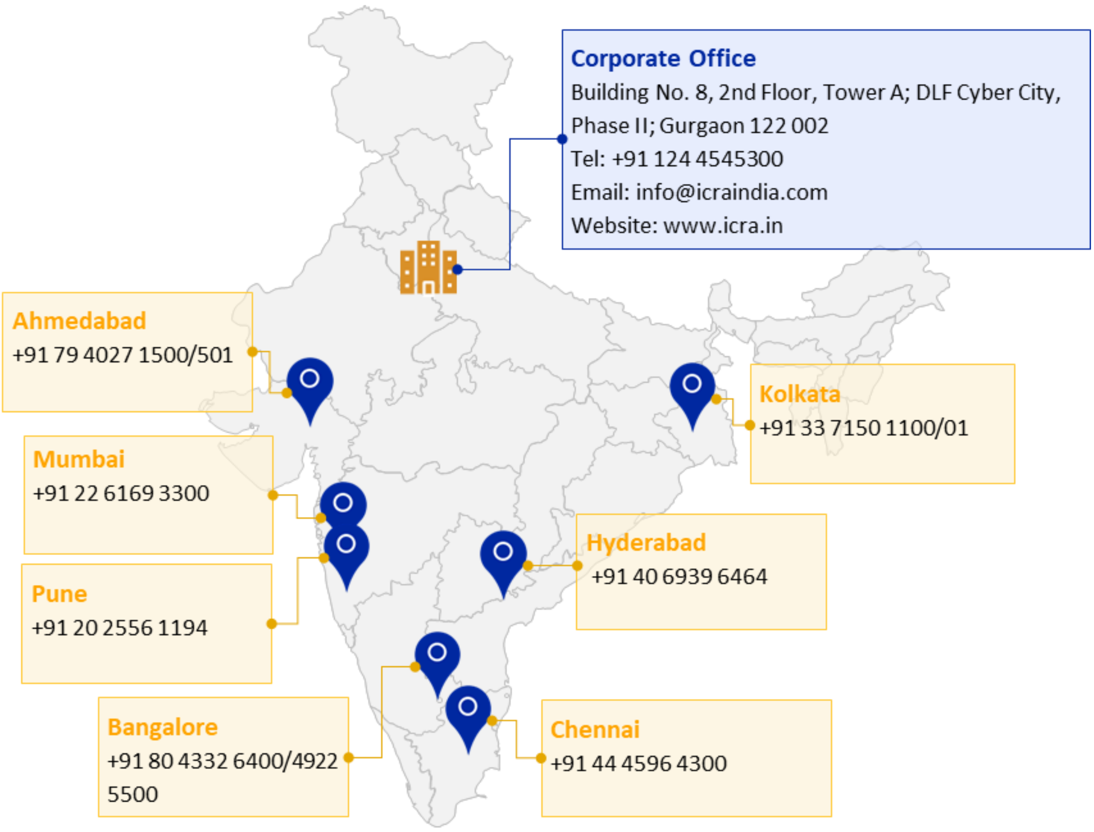

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