

## Bharat Fritz Werner Limited

June 21, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	56.5	61.5	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB-(Stable)
Fund based - Term loan	50.0	33.7	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB-(Stable)
Non-fund Based-Working Capital Facilities	15.0	83.5	[ICRA]A2; upgraded from [ICRA]A3
Unallocated limits	0.0	1.3	[ICRA]BBB+(Stable)/[ICRA]A2; upgraded from [ICRA]BBB-(Stable)/[ICRA]A3
Long Term - Non-Fund Based	27.5	0.0	-
LT / ST - Non-Fund Based	31.0	0.0	-
<b>Total</b>	<b>180.0</b>	<b>180.0</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has upgraded the long-term rating for Rs 61.5 crore fund-based working capital facilities, Rs 33.7 crore term loan facilities of Bharat Fritz Werner Limited ('BFW' / 'the company') from [ICRA]BBB- (pronounced ICRA triple B minus) to [ICRA]BBB+ (pronounced ICRA triple B plus). ICRA has also upgraded the ratings for Rs 1.3 crore unallocated limits of the company from [ICRA]BBB-/ [ICRA]A3 to [ICRA]BBB+/ [ICRA]A2. The outlook on the long-term rating is Stable. ICRA has also upgraded the short-term rating for Rs 83.5 crore non-fund based working capital facilities of the company from [ICRA]A3 (pronounced ICRA A three) to [ICRA]A2 (pronounced ICRA A two).

### Rationale

The rating upgrade takes into account the improvement in business and financial risk profile of the company over FY2018. The company's sales value in FY2018 has increased by 19% on y-o-y basis and the outlook for FY2019 is favourable on the back of strong order booking since the second half of FY2018. The improvement in company's financial risk profile is underpinned by improvement in liquidity profile, reduction in working capital intensity, increased cash flow from operations and reduction in debt levels, which was partly aided by sale of certain land parcels. The rating also factors in the company's long track record in machine tool industry, its reputed client base and its strong design and execution capabilities.

The rating, however, is constrained by the high competitive intensity in the industry, including presence of many foreign suppliers, and significant dependence on the automotive industry for orders. Notwithstanding the current buoyant order book, long term order booking will be vulnerable to cyclicality in the capital expenditure cycles of the underlying industries. The financial risk profile is also constrained by the weak profitability reported by the turning business and past losses incurred on write-off of investments in Matec.

Going forward, BFW's ability to improve its profitability in its turning business, and ability to maintain and grow its market share in the milling machines segment will be the key rating sensitivities.

## Outlook: Stable

ICRA believes that BFW's credit profile will be stable, aided by its track record and market position as well as the limited capital expenditure plans, which can be funded largely out of the internal accruals.

## Key rating drivers

### Credit strengths

**Established track record in the machine tools industry, spanning over 5 decades** – BFW has a long track record spanning across more than 5 decades in the Indian machine tool industry, and long-term association with its customers, which helps in generating repeat orders.

**Improvement in revenue and profitability indicators in FY2018** – There has been improvement in the revenue and profitability metrics of the company in FY2018, as compared to the previous year. The higher revenue base in FY2018 has resulted in better absorption of fixed overheads; and the contribution of the loss-making turning business segment in FY2018 revenue profile has been lower; leading to better operating margins and cash accruals.

**Significant reduction in debt** – Because of higher cash accruals and improvement in working capital intensity, there was significant increase in cash flow from operations, leading to significant reduction in total debt levels as on March 2018. The company had sold certain land parcels during the year, which had aided in prepayment of one of the term loans. The reduction in debt has resulted in favourable capital structure and coverage indicators for the company.

**Improvement in liquidity profile** – There has been significant improvement in the liquidity profile of the company during FY2018, with BFW having unencumbered cash and liquid investments of Rs 17.2 crore of as on March 2018, along with sanctioned and unutilized working capital limits of Rs 50.5 crore. The improvement in liquidity profile has been aided by removal of working capital blockages under the GST system as compared to the earlier scenario.

### Credit challenges

**Intensely competitive nature of the machine tools industry** – The Indian machine tools industry is intensely competitive in nature, with presence of many foreign players.

**Dependence on automotive sector for revenues** – BFW is primarily dependent on the automotive sector for generating most of its revenues. Any slowdown in investments in the automobile sector can adversely impact the revenues and margins of the company.

**Weak profitability from the turning business which was acquired in FY2016** – The turning business which was acquired in FY2016 continues to report operating losses due to high fixed overheads, bringing down the overall EBITDA level. Moreover, the company's financial risk profile is impacted by the past losses incurred on the write-off of its investments in Matec, an erstwhile subsidiary in Germany.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

## About the company:

Bharat Fritz Werner Limited (BFW) was established in 1961 and became a fully owned company of Kothari Group in 2003. BFW is currently a leading producer of machine tools in India. The company is mainly concentrated in the Computer Numerical Control (CNC) milling machine tools segment and is accredited with ISO9001:2000 and ISO 14001:2004 certifications. In October 2011, BFW had acquired 90% stake in Matec Engineering GmbH (Matec), a German company founded in 1992. In March 2015, BFW acquired the turning center division of Proteck Machinery Private Limited on a slump sale basis for a consideration of Rs 24.3 crore. Matec is under liquidation process and ceases to be a subsidiary of BFW.

## Key financial indicators

	FY2017	FY2018 *
Operating Income (Rs. crore)	513.6	609.4
PAT (Rs. crore)	-16.4	23.7
OPBDIT/OI (%)	4.0%	8.4%
RoCE (%)	-2.1%	13.7%
Total Debt/TNW (times)	0.46	0.22
Total Debt/OPBDIT (times)	4.84	1.04
Interest coverage (times)	1.34	4.06

\* Provisional

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				June 2018	July 2017	July 2016	May 2015
1 Fund based – CC	LT	61.5	-	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)
2 Fund based – Term loan	LT	33.7	33.7	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)
3 Non-fund-based limits	ST	83.5	-	[ICRA]A2	[ICRA]A3	[ICRA]A3	[ICRA]A3+
4 Unallocated limits	LT / ST	1.3	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-

## Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based -CC	NA	NA	NA	61.5	[ICRA]BBB+(Stable)
NA	Term Loan 1	August 2017	11.75%	March 2024	25.0	[ICRA]BBB+(Stable)
NA	Term Loan 2	December 2017	9.75%	November 2020	8.7	[ICRA]BBB+(Stable)
NA	Non-fund based	NA	NA	NA	83.5	[ICRA]A2
NA	Unallocated	NA	NA	NA	1.3	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Bharat Fritz Werner Limited

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