

July 07, 2022

Balar Marketing Pvt. Ltd.: Rating upgraded to [ICRA]BBB+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Cash Credit	55.0	55.0	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Total	55.0	55.0	

*Instrument details are provided in Annexure I

Rationale

The rating upgrade of Balar Marketing Pvt. Ltd. (BMPL) takes into account the expansion in its scale of operations, as reflected by the 36% increase in its operating income (OI) to Rs. 435.3 crore in FY2022 (provisional) from Rs. 321.2 crore in FY2021, which along with continued stable operating profitability and low leverage resulted in healthy debt coverage indicators. Over the last few fiscals, the company has diversified across products and geographies, though sales of wire and cables in Tamil Nadu still comprise a major portion of its revenues. Increase in share of revenues from LED, switches and other accessories has supported profitability, and has partially offset the input cost pressure in the wire and cable segment. The rating draws comfort from its promoter's extensive experience in the electrical products (wire, cables, switches, etc) business and the company's distribution network and long brand presence in the southern states, especially in Tamil Nadu.

The rating strengths, however, are constrained by the moderate scale of operations in a highly fragmented and competitive electrical products business that limits pricing flexibility. Further, BMPL's profitability is exposed to high volatility in raw material prices. The rating also factors in the high working capital intensity owing to elongated receivable cycle and high inventory requirements. Given the aggressive growth plans, its ability to judiciously manage its working capital cycle remains crucial from credit perspective. In absence of any major capex and investment plans, the company's coverage indicators are expected to remain healthy with interest cover likely to remain above 5.0 times over the medium term.

The Stable outlook on the rating reflects ICRA's expectation that BMPL will maintain healthy operational and financial profile, supported by its promoter's experience and long presence in the South Indian market.

Key rating drivers and their description

Credit strengths

Experienced promoters and long track record of operations and brand presence in southern states – BMPL is an ISO-9001, ISO-14001 and OHSAS-18001 certified company that is involved in marketing and manufacturing of wires, cables, switches, switchgears and LED lights under the brand name Kundan Cab and Fybros. Mr. Parasmal Jain and Mr. Suresh Jain are its key promoters and have more than two decades of experience in this industry. The company has long brand presence in the southern market of India, especially in Tamil Nadu. It has a distribution network of around 10,000 dealers and distributors.

Moderately diversified product mix – The company manufactures wires and cables, which are mainly used domestically in households, submersibles, switchboards, TV dish antennas, LAN cables, CCTV camera cables, etc. Further, it has diversified into other electrical products like switches, switchgears and LED lights over the years. Wires and cables contributed around 59% to the total sales, followed by LED lights at 17%, switches at 12% and switchgears at 11% in FY2022.

Comfortable financial profile – BMPL's comfortable financial profile is characterised by low leverage (gearing of 0.5 times) and healthy debt coverage indicators. A sizeable share of borrowings includes unsecured loans from promoters/group, a major part (~66% of total debt) of which are subordinated to the external borrowings. The company's debt coverage indicators

remained healthy in the past as reflected in interest coverage ratio of 7.2 times, NCA/total debt of 36.8% and total debt/OPBDITA of 1.8 times in FY2022 (on a provisional basis). With improvement in its scale of operations and stable operating profitability, the coverage indicators are expected to remain healthy.

Credit challenges

Moderate scale of operations and intense competition – The company’s moderate scale of operations is reflected by an operating income (OI) of Rs. 435.3 crore in FY2022 (Rs. 321.2 crore in FY2021) in an industry that is highly fragmented with several organised as well as unorganised players. The intense competition constrains the pricing flexibility and impacts its profitability during sharp increase in commodity prices.

Exposure to volatility in raw material prices – The principal raw materials used in the manufacturing process are copper, galvanised iron wire and insulation materials, such as PVC compounds, which are sourced domestically. The company does not have long-term agreements with any of the raw material or inputs suppliers and purchases its requirements on spot order basis. Hence, BMPL remains exposed to the risk of volatility in raw material prices. The volatility is partly passed on by way of a periodic adjustment of selling prices of its products. However, the extent of pass through is dependent on competitive intensity. It maintains an inventory of around 2–2.5 months to meet the demand and mitigate the sharp volatility in raw material prices.

Working capital-intensive nature of operations – BMPL’s operations are working capital-intensive in nature, reflected by net working capital intensity (NWC/OI) of 40.3% in FY2022, primarily due to higher receivables and inventory. It maintains finished goods inventory of different variants of products as well as raw material inventory of around 2–2.5 months, which results in high inventory days. It usually provides a credit period of 60–90 days to its customers. However, due to the Covid-19 pandemic, the company had provided extended credit period to its customers, resulting in an increase in receivable days in the recent past.

Liquidity position: Adequate

BMPL’s liquidity position is adequate as the accruals from operations are expected to remain healthy for meeting its debt servicing obligations and regular capex plans. Further, the company has sufficient liquidity buffer in the form of undrawn working capital limits, which provides comfort.

Rating sensitivities

Positive factors – ICRA could upgrade BMPL’s rating if there is material improvement in business diversification along with substantial growth in revenues along with improvement in its profitability and credit metrics.

Negative factors – Negative pressure on BMPL’s rating could arise if there is material decline in its revenues and operating margins or deterioration in working capital cycle resulting in lower fund flows from operations and impacting liquidity position on a sustained basis. Deterioration in coverage metrics such as interest coverage below 4.5 times on a sustained basis would also be credit negative.

Analytical approach

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

About the company

Incorporated in 1992, Balar Marketing Pvt. Ltd. manufactures cables, wires, switchgears, lighting systems, etc, under the brand name Kundan Cab and Fybros. The promoters started the business in 1968 by trading in electrical products and later expanded towards manufacturing wires and switchgears. Thereafter, it diversified into switches and accessories. In 2003, the company set up a plant in Bhiwadi, Rajasthan for manufacturing wires and cables. Subsequently, in 2013, it backward integrated and started another unit for drawing, annealing and bunching of copper wire from copper rod. For the switchgear division, the company set up a unit in Delhi in 2009. Apart from this, BMPL has miniature circuit breakers (MCBs), residual current circuit breaker (RCCBs) and isolators division in Hyderabad.

Key financial indicators (audited)

Balar Marketing Pvt. Ltd.	FY2020	FY2021	FY2022 (Provisional)
Operating income (Rs. crore)	252.0	321.2	435.3
PAT (Rs. crore)	6.7	14.5	24.1
OPBDIT/OI (%)	4.3%	9.0%	9.6%
PAT/OI (%)	2.7%	4.5%	5.5%
Total outside liabilities/Tangible net worth (times)	0.7	0.9	1.0
Total debt/OPBDIT (times)	4.5	1.9	1.8
Interest coverage (times)	2.0	7.2	7.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as on May 31, 2022 (Rs. crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
1 Fund-based Cash Credit	Long-term	55.0	-	July 07, 2022 [ICRA]BBB+ (Stable)	May 25, 2021 [ICRA]BBB (Stable)	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based Cash Credit	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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Cash Credit	NA	NA	NA	55.00	[ICRA]BBB+ (Stable)

Source: Company

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

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