

September 06, 2023

BAXY Limited: [ICRA]A-(Stable) /[ICRA]A2+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – fund-based – term loan	90.0	[ICRA] A- (Stable); assigned
Long-term/ short-term fund-based limits	435.0	[ICRA] A- (Stable)/[ICRA] A2+; assigned
Long-term/ short-term unallocated	25.0	[ICRA] A- (Stable)/[ICRA] A2+; assigned
Commercial Paper Programme	50.0	[ICRA] A2+; assigned
Total	600.0	

*Instrument details are provided in Annexure-I

Rationale

For arriving at the ratings, ICRA has considered the consolidated financials of Continental Engines Private Limited (CEPL) along with its wholly-owned subsidiary, Baxy Limited (BL), and step-down subsidiary, Baxy Engineering Private Limited (BEPL), due to close managerial, operational and financial linkages between them. These three entities together are henceforth referred to as the Group/ Baxy.

The assigned ratings favourably factor in the promoter’s track record of experience in the automotive business, and the Group’s established position as a leading supplier of aluminium-based casting components such as cylinder heads, manifolds, transmission components and structural components to major Original Equipment Manufacturers (OEMs). Further, ICRA notes the Group’s diversification efforts into the domestic three-wheeler (3W) market as well as waste management products and infotech solutions. At the promoter level, the Group is fairly diversified across real estate, infrastructure, hospitality and education sectors, in addition to manufacturing undertakings through Baxy; the strong promoter group and associated financial flexibility also offer comfort.

The ratings take into consideration the healthy profitability of the auto component segment, with strong double-digit EBITDA margins reported in the segment over the years, although overall consolidated margins remain constrained to some extent due to sub-optimal utilisation in the 3W segment, and the nascent stage of operations in the waste management products and infotech solutions divisions. However, the contribution from the latter three divisions to revenues as well as profits, remains low at present. While the company is undertaking efforts to improve the margins, especially in the auto-component division, through reduction in rejection rates, improvements in the product mix and other efficiency improvement measures, its ability to ramp up operations profitably in other divisions also remain critical to improving the overall profitability and return indicators.

The ratings also factor in the Group’s comfortable financial risk profile and improving trend in credit metrics with total debt/OPBITDA of 2.2 times and interest cover at 5.8 times in FY2023, against 8.5 times and 1.1 times, respectively, in FY2020. However, with a large debt-funded capex in the horizon with a greenfield auto-component manufacturing facility coming up in BEPL, the credit metrics and coverage indicators are likely to moderate temporarily, till it scales up to optimal utilisation levels. Nevertheless, the healthy cash flow generation from the existing operations are expected to support the company’s overall credit profile, despite the expected debt addition.

ICRA also notes that while the Group’s presence in the 3W, waste management products and infotech solutions divisions provides diversification to its revenue streams, the earnings and return indicators are currently constrained by the sub-optimal utilisation of the 3W division and limited track record in the latter two. Furthermore, the tender-based nature of business in waste management products and infotech solutions divisions for Government contracts, exposes the company to revenue

volatility and risk of receivable build-up, increasing the working capital requirements. ICRA believes that the Group's ability to increase 3W volumes and turn it profitable as well as scale up and build the necessary credentials in the waste management products and infotech solutions divisions remains critical for a further sustainable improvement in credit profile. ICRA also notes that the company's entire revenues from the auto component segment come from the supply of critical engine parts, subjecting its business to risks from the impending electrification in the domestic market. Accordingly, the company's ability to evolve its product profile and remain relevant as electrification penetration increases, would remain critical.

The Stable outlook on the rating reflects ICRA's expectation that the Group will capitalise on its established relationships with its customers and proven experience in the auto component business. The Group's efforts to secure more business in the auto-component space and diversify its revenue streams are expected to drive revenue growth over the medium term.

Key rating drivers and their description

Credit strengths

Established track record of over 35 years of the promoters in the automotive business; strong promoter group – CEPL was incorporated in 1996. The company is part of the Bakshi Group and is promoted by Mr. Amarjit Singh Bakshi, who has experience of more than three decades in the industry. He is a graduate from the Indian Institute of Technology (IIT), Delhi, with a BE in Civil Engineering. In 2001, he also started a real estate company with the brand name, Central Park, which is currently known for its luxury residential spaces with an established presence in the National Capital Region (NCR). He is ably supported by his son, Mr. Shiv Bakshi, who is currently managing the overall operations of CEPL and has experience of more than seven years in the industry. With more than 35 years of industry experience, the promoters have an established track record of operations in the auto-component manufacturing space, and has forged strong relationships with its key customers, supporting its business prospects.

Well-established customer relationships and healthy share of business in the automotive division – Under the automotive division, the Group caters to OEMs such as TVS Motor Company, Volvo Eicher Commercial Vehicles, Eicher Motor Limited and Ather Energy, as well as to tier-I suppliers like Magneti Marelli (who in turn supplies to Tata Motors Limited and Maruti Suzuki India Limited for their AMT requirement). While BEPL's strategic business unit (SBU) currently drives ~75% of revenues from its top five customers, the customer concentration risk is mitigated to an extent by the sole supplier status for the components it supplies. This is largely on account of the lengthy lead time in product development and approvals, and the criticality of the products. Given the majority share of business with its customers, and the established relationships in place, customer concentration risks are mitigated to a large extent.

Comfortable financial risk profile with improving margin structure and moderate leverage levels – Baxy's capital structure on a consolidated basis remains comfortable with gearing at 1.1 time as on March 31, 2023, Total debt/OPBITDA of 2.2 times and interest coverage ratio of 5.8 times in FY2023. Despite some expected addition in debt levels for capex planned over the medium term, Baxy is likely to continue to report healthy credit metrics supported by healthy cash accruals from operations.

Credit challenges

Sub-optimal utilisation in 3W and nascent stage of operations in waste management products and infotech solutions divisions remain a drag on profitability – Due to stiff competition in the 3W space, the existing capacities are not optimally utilised, causing the segment to generate losses currently. Additionally, the margins for the other two segments are low and remain volatile considering the tender-based nature of business. These factors have created an overall drag on the consolidated profitability. The company's ability to increase 3W volumes and turn it profitable as well as scale up and build the necessary credentials in the waste management products and infotech solutions divisions, to drive sustainable earnings from these divisions, remain monitorable. Moreover, the company's ability to realise payments in a timely manner from Government agencies for the tenders in waste management products and infotech solutions divisions remain critical from a credit standpoint.

Presence in engine components exposes it to risks from evolving regulations in the automotive industry – The Group manufactures cylinder heads and blocks used in automotive engines. The automotive industry is subject to evolving norms that require the company to incur additional capex to modify its manufacturing lines accordingly. Additionally, with the pace of electrification gradually gaining momentum in the domestic automotive market, CEPL as a supplier of engines components remains vulnerable to the risks arising from this underlying industry paradigm shift. Thus, the company’s ability to adapt itself to changing customer preferences, in a timely manner, would remain critical.

Large debt-funded capex lined up; scale up to optimal utilisation levels critical – The Group is setting up a greenfield project for manufacturing auto components in Neemrana, Rajasthan, with a capacity of ~15,000 MTPA at a project cost of Rs. 440 crore, to be completed in three phases. The capex would be funded through a mix of debt and internal accruals. Given the large debt-funded capex planned, the company’s credit and coverage metrics are likely to witness some temporary moderation over the medium term. Additionally, being a greenfield project, it is subject to typical project risks such as time and cost overruns and operational risks. The timely progress of the project, without any significant cost escalations, and successful ramp up would remain critical for the timely debt servicing of the project debt. Nevertheless, ICRA notes that the company is likely to generate comfortable cash accruals from its existing operations, which would support it to some extent in case of any unforeseen delays in ramping up new plant as per expectations.

Liquidity position: Adequate

Baxy’s liquidity is adequate owing to healthy cash accruals of ~Rs. 85-100 crore annually, which are sufficient to cover its debt repayment obligations of Rs. 25-70 crore annually in the near to medium term. The company also had free cash and liquid investments of Rs. 67.3 crore as on March 31, 2023. While it has large capex plans over the medium term, largely towards the greenfield auto-component facility under BEPL, it is expected to be funded from internal accruals and proposed incremental term debt, which are in advanced stages of sanctioning.

Rating sensitivities

Positive factors – ICRA could upgrade the Baxy Group’s ratings if there is substantial growth in revenues and improvement in operating margins, resulting in strengthening of debt protection metrics and liquidity profile on a sustained basis.

Negative factors – Negative pressure on the Baxy Group’s ratings could arise if there is a material decline in revenues and operating margins resulting in lower cash flows on a sustained basis. Material time or cost overruns for the ongoing capex or deterioration in working capital cycle, impacting the company’s credit metrics and liquidity position such that DSCR remains below 2.0 times on a sustained basis, could also be a trigger for a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Supplier
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on CEPL’s consolidated financial profile, for which ICRA has consolidated the financials of CEPL and its wholly-owned subsidiary, (BL), and step-down subsidiary (BEPL).

About the company

Incorporated in 1996, CEPL has been providing engineering solutions across a diverse array of businesses including auto-component manufacturing, three-wheelers, waste management products and infotech solutions. Pursuant to a Business Transfer Agreement between CEPL and BL in March 2023, the entire business of CEPL has been transferred to BL on a slump sale business. Accordingly, BL has emerged as the key operational entity of the Group, while CEPL would act as a holding company with ownership of the land and buildings. The company has also incorporated BEPL as a wholly-owned subsidiary of BL, wherein it would be undertaking greenfield expansion of the auto-component division, going forward. It is currently setting up a greenfield manufacturing facility in Neemrana, Rajasthan, for the domestic and overseas markets.

Among the various business units housed under BL, BEPL is the flagship SBU, engaged in the production of automotive cast components, namely aluminium-based cylinder heads, cylinder blocks, manifolds, assembled cylinder heads, gears and other critical engine components. Under Baxy Mobility, the company manufactures and sells 3Ws under the Baxy brand. These manufacturing plants are located at Bhiwadi (Rajasthan) and Roorkee (Uttarakhand). Under Baxy Enviro (Go Swach), the company provides integrated environmental solutions with products developed in-house. Under Baxy Infotech, the company acts as a system integrator, focussed on providing information and communication technologies (ICT), Internet of Things (IoT) and artificial intelligence (AI) based implementations.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	636.2	1,009.4
PAT	17.0	57.1
OPBDIT/OI	11.8%	12.8%
PAT/OI	2.7%	5.7%
Total outside liabilities/Tangible net worth (times)	1.8	2.1
Total debt/OPBDIT (times)	3.3	2.2
Interest coverage (times)	4.2	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

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Sept 06, 2023	-	-	-
1 Fund based-Term loan	Long term	90.0	59.1	[ICRA] A- (Stable)	-	-	-
2 Fund based limits	Long term and short term	435.0	-	[ICRA] A- (Stable)/[ICRA] A2+	-	-	-
3 Unallocated	Long-term and short term	25.0	-	[ICRA] A- (Stable)/[ICRA] A2+	-	-	-
4 Commercial Paper Programme	short term	50.0	-	[ICRA] A2+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund based- Term loan	Simple
Long-term/ short-term fund based limits	Simple
Long-term/ short-term unallocated	Not applicable
Commercial Paper Programme	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	Fund based-Term loan	FY2020 & FY2023	3.5-8.9%	FY2025-FY2028	90.0	[ICRA] A- (Stable)
NA	Fund based limits	NA	NA	NA	435.0	[ICRA] A- (Stable)/[ICRA] A2+
NA	Unallocated	NA	NA	NA	25.0	[ICRA] A- (Stable)/[ICRA] A2+
NA	Commercial Paper Programme*	NA	NA	NA	50.0	[ICRA] A2+

Source: Company *Not yet placed

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Annexure II: List of entities considered for consolidated analysis

Company Name	CEPL Ownership	Consolidation Approach
Continental Engines Private Limited	-	Full Consolidation
Baxy Limited	100.00%	Full Consolidation
Baxy Engineering Private Limited (Step-down subsidiary)	100.00%	Full Consolidation

Source: Company data

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
Kinjal.shah@icraindia.com

Sruthi Thomas
+91 124 4545 822
sruthi.thomas@icraindia.com

Trisha Agarwal
+91 22 6114 3457
trisha.agarwal@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

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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



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