July 12, 2017

Bharat Fritz Werner Limited

Summary of rated instruments

Instrument*	Amount	Rating Action
	In Rs crore	July 2017
LT – Term loan	50.0	[ICRA]BBB-(Stable) reaffirmed
LT – Fund based / CC	56.5	[ICRA]BBB-(Stable) reaffirmed
LT – Non fund based	27.5	[ICRA]BBB-(Stable) reaffirmed
LT / ST - Non fund based	31.0	[ICRA]BBB-(Stable) / [ICRA]A3 reaffirmed
ST – Non fund based	15.0	[ICRA]A3 reaffirmed

*Instrument details captured under Annexure-1

Rating action

ICRA has reaffirmed the long term rating of [ICRA]BBB- (pronounced ICRA triple B minus) assigned to the Rs 50.0 crore term loans, Rs 56.5 crore fund based facilities and Rs 27.5 crore non-fund based facilities of Bharat Fritz Werner Limited ('BFW' / 'the company'). The outlook on the long-term rating is Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A3 assigned to the Rs 46.0 crore non-fund based facilities of the company.

Rationale

The rating reaffirmation takes into account the company's long track record in machine tool industry, its reputed client base and strong design and execution capabilities. Moreover, BFW's acquisition of the turning machines division of Proteck Machinery Private Limited (Proteck) would aid in enhancing its product portfolio and diversifying its presence within the machine tool industry. ICRA also notes that Matec Engineering GmbH (Matec), a company that BFW had acquired in 2011 is under liquidation and ceases to be a subsidiary of BFW. The weak financial profile of Matec and contingent liabilities arising out of the same had been a credit concern for BFW earlier; however, going forward there would be no funding support to Matec from BFW. The rating action also takes into account the healthy growth in revenue booking witnessed in Q1 of FY2018 on year-on-year basis and the favourable demand outlook for the machine tools industry. The ratings also draw comfort from the consistent funding support that has been received by BFW from various group entities during the past two years.

The rating is however constrained by the weakened balance sheet position of the company, characterized by low net worth, high gearing ratio and modest liquidity. The company had made a provision of Rs 80 crore in FY2016 for diminution in the value of its investment in its erstwhile German subsidiary, Matec, which has eroded the net worth of BFW to a large extent. The rating is also impacted by the weak profitability reported by the recently acquired turning business, which has impacted the overall profitability of BFW in FY2016 and FY2017. BFW's liquidity profile has been impacted by cash outflow towards settling the standby letter of credit (SBLC) claims raised by Matec's lenders in FY2017 and working capital build-up due to delay in refund of balances with statutory authorities. The company has initiated the sale of certain land parcels, which when concluded will aid in correcting the balance sheet funding mismatches and liquidity position to some extent.

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.

Key rating drivers

Credit strengths
- Established track record in the machine tools industry, spanning over 5 decades
- Reputed client base and long term association with the customers
- Diversification into turning machines segment would provide a wider product range to the clients

Credit weaknesses
- Weakened net worth position and its capital structure owing to provision made for prior investments in a German subsidiary, Matec
- Increased working capital intensity and cash outflow towards settling the SBLC claim from a lender to Matec has impacted liquidity profile in FY2017
- Weak profitability from the recently acquired turning business of Proteck

Description of key rating drivers:

BFW is currently a leading producer of machine tools in India. The company is mainly concentrated in the computer numerical control (CNC) milling machines tools segment, which contributed nearly 83% of the revenue of the company in FY2017. 15% of the company's turnover was contributed by the sales of turning machines. The company 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. BFW has reported stable sales volumes and continues to maintain its market share in the milling machine tools industry segment that it predominantly operates in. The company expanded its presence in the turning machines segment by acquiring –the turning division of Proteck Machinery Private Limited in April 2015. Although the turning division has reported weak profitability since the acquisition due to certain legacy orders, the turning business is expected to show turnaround in FY18, which would help the overall profit margins of BFW.

The rating is however constrained by the weak financial profile of the company as on March 2017. BFW had made a provision for Rs 80 crore in FY2016 for diminution of the value of its investment in its erstwhile German subsidiary Matec, which has impacted net profit and net worth adversely. The liquidity profile of the company in the second half of FY2017 has been adversely impacted by cash outflow towards settling the SBLC claims raised by Matec's lenders, which was largely funded by BFW's own cash accruals. The company's working capital requirements were also heightened by delays in refund of certain advances with statutory authorities. Notwithstanding the weakened liquidity position, the rating derives comfort from the company's planned land sale transaction and expected continued support from group entities to meet funding shortfalls.

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 in techno-commercial collaboration with Fritz Werner Werkzeugmaschinen GmBH of West Germany. It 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.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table:

		Current Rating						
Sl. No.	**Name of Instrument**	**Type**	**Rated amount (Rs. Crore)**	**Rating in FY2018**	**Rating in FY2017**	**Rating in FY2016**	**Rating in FY2015**
				Jun-17	**Jun-16**	**Apr-15**	**Jun-14**
1	Term Loan	LT	50.0	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)
2	Fund based / CC	LT	56.5				
3	Non fund based	LT	22.5				
4	Non fund based	LT/ST	36.0	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/A3	-	-
5	Non fund based	ST	15.0	[ICRA]A3	[ICRA]BBB-(Stable)	[ICRA]A3+	[ICRA]A3+

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

Annexure-1
Instrument Details

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term loan 1	August 2011	12.15%	October 2017	70.00	[ICRA]BBB-(Stable)
Term loan 2	August 2015	11.80%	March 2021	35.00	[ICRA]BBB-(Stable)
Term loan 3	November 2015	11.75%	November 2020	15.00	[ICRA]BBB-(Stable)
Cash Credit	-	-	-	56.50	[ICRA]BBB-(Stable)
Non fund based	-	-	-	73.50	[ICRA]A3

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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.

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