February 04, 2020

Brijbasi Art Press Limited: Ratings revised; removed from Watch with developing implications; Negative outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund Based/Cash Credit	25.00	26.85	[ICRA]BB (Negative); revised from [ICRA]BB+ &
Long-term: Fund Based/Term Loan	1.62	0.85	[ICRA]BB (Negative); revised from [ICRA]BB+ &
Short-term: Non-fund Based	6.30	6.30	[ICRA]A4; revised from [ICRA]A4+ &
Long-term/Short-term: Unallocated	1.08	-	-
Total	**34.00**	**34.00**	

**Instrument details are provided in Annexure-1; & - Under watch with developing implications*

Rationale

The revision in the ratings[1] takes into account the continuous pressure on Brijbasi Art Press Limited's (BAPL)[2] liquidity, which has further aggravated following the fire incident in the company in March 2019. This is also evident in the near-full utilisation of working capital facilities. ICRA notes the increase in BAPL's debt levels in the current year (during the period from April 2019 to November 2019) to support the intermittent funding and increased working capital requirements. In addition, there has been a notable increase in the company's debtors and inventory levels, resulting in heightened net working capital intensity in the current year. The extended credit period from its suppliers has supported BAPL's liquidity to an extent. ICRA would continue to monitor the company's ability to manage its working capital cycle and liquidity profile. Further, increased overheads owing to outsourcing of the printing work and the input cost pressures are expected to keep the improvement in margins under check. The ratings also consider stiff competition from the organised and unorganised domestic sectors as well as from players in China. ICRA also notes the significant threat to BAPL's growth from the increased usage of electronic media. Further, in the absence of adequate hedging mechanism, the company's margins remain vulnerable to foreign exchange rates fluctuations. The rating, however, derives comfort from the extensive experience of the promoters in the printing and publishing industry. ICRA notes the company's established track record and strong customer and supplier relationships, which have resulted in smooth flow of operations in the past. The ratings further derive comfort from the company's diversified geographic presence with sales in both domestic and export markets.

The Negative outlook on the [ICRA]BB rating reflects ICRA's opinion that the company's liquidity is expected to remain stretched. Given the sizeable debt repayments going forward, the company's ability to maintain its profitability remains crucial.

1 100 lakh = 1 crore = 10 million

2 For complete rating scale and definitions, refer ICRA's website (www.icra.in) or other ICRA rating publications

Key rating drivers and their description

Credit strengths

Established operational track record: The company has been in the printing and publishing business for more than two decades. The promoter family has been involved in the business since 1922. Over the years it has established its brand name in the industry, mainly in the exports market which constitutes about 70-80% of its revenues on an average. ICRA notes the company's strong customer and supplier relationships, which have resulted in smooth flow of operations in the past.

Integrated printing solutions: BAPL's plant is equipped with end-to-end printing facilities such as content creation, designing, layout, printing and binding. It has a strong in-house content development team. Further, the company's units are subject to social audits by Disney, Business Social Compliance Initiative (BSCI), etc. The products used in book publishing (including ink, glue, paper, etc.) are tested for security and safety before being dispatched, which is one of the pre-requisites for exports. This gives competitive advantage to the company.

Credit challenges

Modest scale of operations and average profitability: While the company has demonstrated its ability to maintain its revenues in FY2019 and the current year despite the operational issues after the fire incident, its scale of operations remains moderate. Further, with modest scale and high overheads, BAPL's operating margins have remained average. Given the sizeable debt repayments over the next three years, the company's ability to maintain its profitability remains crucial.

Stretched liquidity position: BAPL's liquidity position remains stretched as reflected by limited cushion on undrawn working capital limits. In addition, there has been a considerable increase in the company's debtor as well as inventory levels in the recent months.

Exposure of profitability margins to volatilities of raw material prices and foreign exchange rates: The main raw material for BAPL is paper, the price of which have been volatile. The material cost accounts for around 70% of the total output. So, the profitability margins of BAPL remain susceptible to the raw material price volatility. Further, exports account for ~70-80% of the company's total sales, which exposes its profitability to adverse movements in foreign exchange rates in the absence of an adequate hedging mechanism.

Revenues and profitability remain exposed to alternative digital media: The company faces substantial threat from alternative media for the activity books segment and rampant piracy. BAPL's ability to adapt to the transition faster than its competitors remains critical since the advancement may render its products obsolete or it may lose its competitive edge and market share.

Profits vulnerable to competitive pressures: The printing industry is dominated by unorganised players offering cheap and low-quality printing solutions. As a result, organised players such as BAPL face intense competition, especially during economic downturns when clients opt for cheaper print solutions.

Liquidity position: Stretched

BAPL's liquidity position is stretched as reflected by minimal undrawn working capital limits. Sustenance of free cash flows will remain critical, given the company's heavy debt repayment obligations over the next three years. With high utilisation of the existing sanctioned facilities, the company will need additional working capital limits, either in the form of enhancement in working capital facilities or unsecured loans from the promoters to support liquidity. ICRA would continue to monitor the company's ability to manage its working capital cycle and liquidity profile.

Rating sensitivities

Positive triggers: The rating is unlikely to be upgraded in the near to medium term, given the Negative outlook. The outlook may be revised to Stable if higher-than-expected profitability or reduction in working capital cycle improves its liquidity with adequate cushion in working capital limits on a sustained basis.

Negative triggers: Negative pressure on the rating could arise if a significant rise in debt levels, or an increase in working capital intensity led by an elongation in receivable cycle; or delay in receiving the estimated insurance claim, results in deterioration in liquidity position. Additionally, any further investments in non-return generating entities or a sizeable dividend payout impacting the company's cashflows will be negative for the ratings. Also, lack of timely financial support from promoters to cover the expenses and bridge funding gaps, if any, may lead to a downward pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Outlook and Rating Watch
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

About the company

BAPL, based in New Delhi, is a closely held company of the Garg family. Mr. M L Garg and his two sons, Mr. Saurabh Garg and Mr. Apurv Garg manage the business operations. The company is involved in publishing books, calendars and posters apart from undertaking commercial printing orders for corporate and book publishing houses. BAPL began as a partnership firm in 1988 and was subsequently converted into a limited company in April 1993. The company's printing units are situated at Okhla in Delhi, Noida and Greater Noida in Uttar Pradesh.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	131.09	151.63
PAT (Rs. crore)	2.19	2.77
OPBDITA/OI (%)	4.56%	5.16%
RoCE (%)	9.38%	10.09%
Total Outside Liabilities/Tangible Net worth (times)	2.22	2.08
Total Debt/OPBDIT (times)	5.89	4.82
Interest Coverage (times)	2.55	2.89
DSCR (times)	2.35	2.48

Source: Financial statements of BAPL; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3">SNo</th><th rowspan="3">Name of Instrument</th><th></th><th colspan="3">Current Rating (FY2020)</th><th colspan="4">Chronology of Rating History for the Past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th>Rated amount</th><th>Amount outstanding</th><th>Month-year & Rating</th><th colspan="4">Month- year and Rating in</th></tr>
<tr><th colspan="2"></th><th></th><th colspan="2">FY2019</th><th>FY2018</th><th>FY2017</th></tr>
<tr><th></th><th></th><th></th><th colspan="2">(Rs. crore)</th><th>February 4, 2020</th><th>March 15, 2019</th><th>November 02, 2018</th><th>-</th><th>-</th></tr>
<tr><td>1</td><td>Cash Credit</td><td>Long Term</td><td>26.85</td><td>-</td><td>[ICRA]BB (Negative)</td><td>[ICRA]BB+; &</td><td>[ICRA]BB+ (Stable)</td><td>-</td><td>-</td></tr>
<tr><td>2</td><td>Term Loan</td><td>Long Term</td><td>0.85</td><td>0.85</td><td>[ICRA]BB (Negative)</td><td>[ICRA]BB+; &</td><td>[ICRA]BB+ (Stable)</td><td>-</td><td>-</td></tr>
<tr><td>3</td><td>Non-fund Based</td><td>Short Term</td><td>6.30</td><td>-</td><td>[ICRA] A4</td><td>[ICRA] A4+; &</td><td>[ICRA] A4+</td><td>-</td><td>-</td></tr>
<tr><td>4</td><td>Unallocated</td><td>Long Term/Short Term</td><td>-</td><td>-</td><td>-</td><td>[ICRA]BB+ & / [ICRA] A4+&</td><td>[ICRA]BB+ (Stable)/ [ICRA] A4+</td><td>-</td><td>-</td></tr>
</table>

Amount in Rs. Crore; & - Under watch with developing implications

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	March 2017	-	-	26.85	[ICRA]BB (Negative)
-	Term Loan	April 2018	-	April 2023	0.85	[ICRA]BB (Negative)
-	Non-fund Based	March 2017	-	-	6.30	[ICRA] A4

Source: BAPL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

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