

July 30, 2021

Bright Brothers Limited: Long-term rating upgraded to [ICRA]BB+(Stable); Short-term rating reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-Based – Term Loan	8.97	8.97	[ICRA]BB+ (Stable); Upgraded from [ICRA]BB (Stable)
Short-term – Fund-Based Working Capital	45.00	55.00	[ICRA]A4+ reaffirmed
Total	53.97	63.97	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade takes into account the steady improvement in Bright Brothers Limited's (BBL) operating profit margin to 8.8% in FY2021 from 4.2% in FY2017 on the back of cost control measures and value addition in the activities undertaken by the company. Some of these long-term cost control measures are expected to continue to drive the profitability, going forward. The rating continues to draw comfort from promoter's extensive experience in manufacturing moulded plastic products and its reputed clientele, which includes the likes of Whirlpool of India Limited, Amber Enterprises India Limited, Havells India Limited and Rialto Enterprises, among others. While the debt levels have increased over the years, the interest coverage ratio has also witnessed an improvement following the rise in profit levels. ICRA also notes that the company has recently sold a land parcel for a consideration of around Rs. 43.7 crore. While the same has boosted the liquidity of the company in the immediate term, the utilisation of proceeds of the same remains uncertain and will be a key determinant of liquidity, going forward.

The ratings, however, continue to remain constrained by moderation in the capital structure and debt protection metrics following an increase in working capital borrowings and term loan availed in FY2021. The rating remains constrained by the company's exposure to high customer concentration risk with ~65% of the total sales being derived from a single customer. Nevertheless, the management has been taking efforts to reduce its reliance on a single customer and has inducted new customers in the past two years. The rating also remains constrained by the intense competition in the moulded plastic components industry, which along with limited bargaining power of the company with its established customers, restricts the company's pricing flexibility. Furthermore, the net working capital intensity stood high at 29% in FY2021 on account of increased receivables during the year-end. ICRA also notes the high dividend pay-out by the company, which has impacted BBL's cash flow generation and net worth before.

Key rating drivers and their description

Credit strengths

Extensive experience and established track record in the moulded plastic products manufacturing business - BBL commenced operations as a private limited company in 1946, led by Mr. T. W. Bhojwani. His son, Mr. Suresh Bhojwani, is the present Chairman and Managing Director (CMD) of the company. The promoters have over five decades of experience in manufacturing and trading injection moulded plastic components and have established long-term relationships with key customers. The promoters also have business interests in T. W. Bhojwani Leasing Private Limited and Quality Plastics, engaged in manufacturing plastic combs.

Reputed clientele of leading consumer durables manufacturers; repeat orders from clients - The company's customer base includes reputed consumer durable companies like Whirlpool of India Limited (WIL), which constituted 64% of BBL's total sales in FY2021, apart from new customers like Amber Enterprises India Limited and Havells India Limited. BBL has established relationships of over 25 years with its key clients and is able to garner significant repeat business from them each year.

Consistent improvement in profit margin – The company's operating profit margin has reported stable improvement to 8.8% in FY2021 from 4.2% in FY2017 on the back of economies of scale and operational efficiencies. While the net profit margin continues to remain under pressure due to high interest and depreciation expense, it has improved to 2.82% in FY2021 from net loss margin of 0.15% in FY2017. Further, the company implemented cost cutting initiatives during FY2021, some of which are expected to have a sustained impact on the margins, going forward.

Credit challenges

Moderation in capital structure and debt coverage indicators with increase in debt levels in FY2021 – The total debt as on March 31, 2021 stood at Rs. 72.4 crore against Rs. 47.4 crore as on March 31, 2020. The increase in total debt was attributable to the new term loan of Rs. 7.4 crore availed during the year and increase in working capital borrowings to support the increase debtors as on March 31, 2021. The gearing level also increased from 1.1 times as on March 31, 2020 to 1.5 times as on March 31, 2021. The increased debt level also resulted in moderation in total debt/operating profit of 4.1 times (3.0 times in FY2020). ICRA notes that the company's tangible net worth has been impacted during FY2017–FY2020 due to regular dividend payments by the management, despite weak accruals. While the company's capital structure is expected to improve, going forward, considering the likely partial prepayment of long-term debt from healthy cash inflow received from the land deal, significant debt-funded capex, if any, and significantly higher dividend pay-out can adversely impact the capital structure

High customer concentration risk, although new customers inducted to reduce dependence on WIL – The company's sales remain concentrated with ~65% of the sales being derived from WIL in FY2020 and FY2021. However, BBL has been in business with WIL for over 25 years, which insulates the risk to an extent. Furthermore, the management has taken conscious efforts to diversify its sales by inducting new customers in the past two years.

Operations vulnerable to downturn in consumer durables market with competition from reputed domestic and foreign players; limited bargaining power with established customers - The company's operations are characterised by intense competition owing to the relatively low technical expertise and capital requirements. BBL's growth has primarily been fuelled by its relationships with WIL and other reputed players in the white goods sector. It faces fierce competition from large organised manufacturers as well as from smaller organised players in the domestic markets. Further, the operations also remain vulnerable to demand indicators in the consumer durables market in India. Given the intense competitive environment and large purchasing power of its customers, the company's ability to pass on any increase related to conversion costs to customers, mainly related to labour, power and fuel, remains limited by its weak bargaining power.

Significant increase in working capital intensity in FY2021 – The company's net working capital intensity increased to 29% in FY2021 from 16% in FY2020 due to rise in receivables as well as inventory level. While some comfort was witnessed from increase in payables, the same stood relatively lower than the receivables and inventory level. ICRA also notes that the increase receivables in FY2021 was also attributable to significant sales in Q4 FY2021; however, BBL's ability to reduce its working capital intensity will remain critical amid its growing scale of operations.

Liquidity position: Adequate

BBL had term loans of Rs. 12.42 crore on its books as on March 31, 2021, with repayment obligation in the range of Rs. 2.5 – 4.4 crore in the next three years. The company had free cash balance of Rs. 6.29 crore and liquid investments (mutual funds) of Rs.4.70 crore as on March 31, 2021, which provides support to the liquidity position. The fund flow from operations is expected to remain positive, given the healthy operating profit, going forward. The company has average unutilised limits of ~Rs. 11.00 crore for the April 2020–June 2021 period. ICRA also notes the Rs.43.75-crore proceeds received from the sale of a land parcel in July 2021.

Rating sensitivities

Positive factors – Stable revenue growth while sustaining the operating profit margin will lead to a rating upgrade. Significant reduction in working capital intensity by faster realisation of receivables will also remain critical for a rating upgrade.

Negative factors – Any significant impact on the capital structure due to debt-funded capex can lead to a rating downgrade. The rating could be downgraded if the profitability declines significantly, or if there is any weakening in the liquidity profile due to stretched receivables.

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 1946, BBL manufactures injection moulded plastic products. The company caters primarily to white goods manufacturing companies such as Whirlpool of India Limited, Eureka Forbes, and Carrier Midea India Pvt. Ltd., among others. BBL also manufactures toothbrush handles for Procter & Gamble on a job-work basis (through Rialto Enterprises Pvt. Ltd.). Furthermore, it manufactures and markets material handling plastic crates under its own brand name, 'Brite', and is involved in trading hair care and beauty products under the 'Divo' brand, procured from China and Taiwan. The company has six manufacturing units currently—three in Puducherry and one each in Faridabad (Haryana), Bhimtal (Uttarakhand) and Dehradun (Uttarakhand).

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	217.87	202.27
PAT (Rs. crore)	3.42	5.70
OPBDIT/OI (%)	7.24%	8.76%
PAT/OI (%)	1.57%	2.82%
Total Outside Liabilities/Tangible Net Worth (times)	1.70	2.53
Total Debt/OPBDIT (times)	3.00	4.09
Interest Coverage (times)	2.91	4.09

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 (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in July 30, 2021	Date & Rating in FY2020			Date & Rating in FY2019	Date & Rating in FY2018
						Jan 28, 2020	Jul 29, 2019	Jun 25, 2019	May 10, 2018	Feb 12, 2018
1	Term Loans	Long-term	8.97	4.97	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-
2	Fund-based Bank facilities	Short-term	55.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-	-
3	Issuer Rating	-	-	-	-	-	[ICRA]BB (Stable); Withdrawn	[ICRA]BB (Stable); placed on notice of withdrawal for one month	[ICRA]BB (Stable)	-
4	Fixed Deposit Programme	Medium Term	-	-	-	MB+ (Stable) ISSUER NOT COOPERATING; Withdrawn	MB+ (Stable) ISSUER NOT COOPERATING; placed on notice of withdrawal	MB+ (Stable) ISSUER NOT COOPERATING; placed on notice of withdrawal for six months	MB+ (Stable) ISSUER NOT COOPERATING	MB+ (Stable) ISSUER NOT COOPERATING

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Short-term – Fund Based Working Capital	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
-	Term Loan	January 2019	8.2%	June 2023	8.97	[ICRA]BB+(Stable)
-	Bill Discounting	-	-	-	55.00	[ICRA]A4+

Source: Company

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

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