

November 29, 2021

Bhuruka Gases Limited : Ratings upgraded to [ICRA]BBB+ (Stable)/[ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Term Loan	60.00	60.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (stable).
Fund based- Working Capital Facilities	3.50	3.50	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (stable).
Non-fund Based Limits- Working Capital Facilities	2.50	2.50	[ICRA]A2; upgraded from [ICRA]A3+.
Total	66.00	66.00	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade factors in the continued improvement in Bhuruka Gases Limited's (BGL's) capital structure and debt protection metrics on the back of a reduction in its debt levels following the scheduled debt repayments and a prepayment of Rs. 4.69 crore in H1 FY2022. Moreover, the operating margins of the company sustained at healthy levels and improved by 364 bps to 54.91% in FY2021, driven by an increase in sales and better absorption of the fixed overheads. BGL's revenues are expected to grow by 7-8%, while the operating margins are likely to stay at healthy levels. While the company has capex plans of around Rs. 46 crore for the FY2022-FY2024 period to be entirely funded by internal accruals, the liquidity and debt coverage metrics are likely to remain healthy. Further, the ratings continue to favorably consider the extensive experience of BGL's promoters, its large customer base and a varied product profile.

The ratings, however, remain constrained by BGL's moderate scale of operations and intense competition, especially in the bulk gas segment, and the exposure to the demand cyclicity in major end-user industries such as steel and metal processing. ICRA further take notes of the advances extended by BGL to group company - Bhuruka Power Corporation Limited (BPCL) - in the form of inter-corporate deposits (ICDs) which is a credit concern. Any further support to or incremental investments in financially weak group entities as well as any other non-related businesses within the group remain key rating sensitivities for the company.

The Stable outlook assigned to the company factors in BGL's established track record of operations, sustained cost-competitive operations and comfortable leverage level.

Key rating drivers and their description

Credit strengths

Long track record of operations in industrial gases segment - BGL has a track record of operations of over four decades in the industrial gases industry, supported by the extensive experience of the promoters along with a varied product profile.

Diversified and large customer base - Over the years, Bhuruka Gases has established a well-diversified and large customer base from both dealers and manufacturers. The top 10 clients contributed to 25-30% of the company's revenues in the last three years. The long-term relationship helps the company in acquiring repeat orders and also provides revenue stability.

Sustainable cost advantage due to presence of captive power plant – Power is one of the major cost components for industrial gas manufacturing units. Hence, to enhance its cost competitiveness, BGL set up a 13.8-MW captive wind power plant that commenced operations in July 2017. The presence of a captive power plant has resulted in sustained cost savings of Rs 15-18 crore per annum and has driven profitability growth for the company. This along with the higher share of revenue contribution (40-48% over FY2016-FY2021) from the high-margin yielding calibration gases segment has supported BGL's operating profitability. Consequently, the operating margins of the company remained at healthy levels and improved by 364 bps to 54.91% in FY2021.

Improvement in capital structure and debt protection metrics – BGL's revenue witnessed a 5% YoY growth in FY2021, driven by improvement in bulk gas prices and better sales volume. The company's capital structure remains comfortable with a gearing ratio at 0.81 as of March 2021 which improved from 1.25 as of March 2020 with the reduction in debt levels. The company also prepaid Rs 4.69-crore term loans in H1 FY2022, positively impacting its capital structure. This along with a healthy profitability resulted in strong debt coverage indicators reflected in an interest coverage and total debt/OPBIDTA of 4.98 times (PY: 4.38 times) and 2.44 times (PY: 1.86 times), respectively, in FY2021. Going forward, the company is expected to report 7-10% revenue growth while largely sustaining the operating margins and debt protection metrics at healthy levels.

Credit challenges

Modest scale of operation and intense competition – BGL has a modest scale of operation and the industrial gases industry is characterised by large players accounting for a considerable share of the bulk gas segment along with several other small players as well. This leads to competitive intensity and pricing pressures. However, BGL's presence in the niche high-margin yielding calibration gases segment, customised product profile and superior quality control mitigate the risks to a certain extent.

Exposure to cyclical nature of end-user industries – BGL's performance remains exposed to the cyclical nature in demand inherent in major end-user industries such as steel and metal processing. However, this is mitigated to a certain extent by its presence in various other segments such as healthcare, aerospace, diamond cutting and fire suppression systems etc.

Financial profile of group companies a concern – BGL had fully written off an investment of Rs. 58.90 crore over FY2018-FY2020 in its subsidiary, Bhuruka Overseas Pte Limited (BOPL), because of continued losses made by it. Also, BGL has extended funding support to a financially weaker group company – Bhuruka Power Corporation Limited (BPCL) - in the form of ICDs amounting to Rs. 39.04 crore as on March 31, 2021. Any further investments or support by BGL to the weaker Group companies could adversely impact its liquidity profile and will remain a key rating monitorable.

Liquidity position: Adequate

BGL's liquidity position is adequate and supported by healthy profitability levels and cash generation to meet the debt servicing obligations. The company has a buffer in cash credit limits of Rs 3.5 crore and an unencumbered cash balance of Rs. 5 crore as on October 31, 2021.

Rating sensitivities

Positive factors – The ratings can be upgraded if the company is able to scale up its revenues and improve its liquidity position while maintaining its profitability and debt protection metrics.

Negative factors – A downward pressure on the ratings could arise in case of a material decline in the revenues and profitability of the company, adversely impacting the debt coverage metrics. Further, additional investments or support to the group companies, leading to a weakening of its liquidity position, may lead to negative pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on BGL's standalone financial statements.

About the company

Bhuruka Gases Limited (BGL), established in 1974, is a manufacturer of industrial and rare gases for industrial and calibration requirements. The company is based out of Bengaluru, with manufacturing facilities in Bengaluru, Chennai and Pune. It is a part of the Bhuruka Group which has presence in renewable power, manufacturing of refractory, stevedoring and development of IT parks. The company manufactures bulk gases, import substitute high purity gases and calibration gases at its manufacturing facilities. The company is 100% held by Bhuruka Gases Investment India Private Limited.

Key financial indicators -

BGL	FY2020 (audited)	FY2021 (audited)
Operating Income (Rs. crore)	82.04	85.79
PAT (Rs. crore)	22.65	26.70
OPBDIT/OI (%)	51.27%	54.91%
RoCE (%)	22.11%	21.13%
Total Outside Liabilities/Tangible Net Worth (times)	1.51	1.02
Total Debt/OPBDIT (times)	2.44	1.86
Interest Coverage (times)	4.38	4.98
DSCR (times)	2.97	2.38

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year).

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY 2022)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2021	FY2020	FY2018
					29-Nov-2021	27-Aug-2020	05-Apr-2019	02-Jan-2018
1	Term loan	Long term	60.00	60.00	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Cash credit	Long term	3.50	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Bank Guarantee	Short term	2.50	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Cash Credit	Simple
Bank Guarantee	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, is available on ICRA's 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
NA	Term loan- Fund based limits	Sep-2018	9.5%	Oct-2026	48.5	[ICRA]BBB+(Stable)
NA	Covid loan- Fund based limits	Dec-2020	7.5%	Feb-2026	11.5	[ICRA]BBB+(Stable)
NA	Working capital- Fund based limits	-	-	-	3.50	[ICRA]BBB+(Stable)
NA	Bank Guarantee	-	-	-	2.5	[ICRA]A2

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

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