

December 30, 2022

Bright Brothers Limited: Ratings reaffirmed and removed from Issuer Not Cooperating Category

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); reaffirmed and removed from Issuer Not Cooperating Category
Short term – Fund based – Working capital	55.00	55.00	[ICRA]A4+; reaffirmed and removed from Issuer Not Cooperating Category
Total	63.97	63.97	

*Instrument details are provided in Annexure-1

Rationale

Bright Brothers Limited (BBL) has provided the requisite information required to monitor its performance and to carry out the rating exercise, hence, the ratings have been removed from Issuer not Cooperating category. The rating reaffirmation takes into account the extensive experience of the promoters of Bright Brothers Limited (BBL), its established track record in moulded plastic products manufacturing business and its reputed client base comprising of leading manufacturers of consumer durable products with repeat business. The reaffirmation of the ratings also takes into account the improvement in BBL's debt position on the back of sale of a land parcel for Rs 35 crore in FY2022; the company's debt has reduced considerably from Rs. 72.42 crore as of Mar-21 to Rs. 37.81 crore as of Sep-22 and TOL/TNW has improved from 1.21x as of March 2022 to 0.95x as of Sep 2022. The ratings are further supported by the improved liquidity position as marked by free cash and bank balance of Rs. 4.12 crore and liquid investments of Rs. 18.40 crore as on September 30, 2022.

Although the leverage and liquidity position has improved, the rating is constrained by the moderation in the operating profitability from 5.7% in FY2022 to 3.4% in H1FY2023 and interest cover from 2.8x to 1.9x respectively on account of increase in raw material prices and employee costs due to planned expansion and thrust on penetrating export markets. The rating continues to be constrained by the company's exposure to high customer concentration risk with single customer contributing more than 60% of the total sales in FY2022. The ratings also remain constrained by the intense competition in the moulded plastic components industry, which along with limited bargaining power of the company, restricts the company's pricing flexibility. Furthermore, the company plans to set up three new manufacturing units in different locations exposing it to funding and project risk.

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 62% of BBL's total sales in FY2022 and 60% and total sales in H1FY2023, 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.

Improvement in leverage and liquidity position: The company's debt and liquidity position has improved on the back of sales of land parcel for Rs 35 crore in FY2022. The company's debt has reduced considerably from Rs. 72.42 crore as of Mar-21 to Rs. 37.81 crore as of Sep-22, reduction in debt is mainly attributable to the repayment of the promoter loan while TOL/TNW has improved from 1.21x as of March 2022 to 0.95x as of Sep 2022. The liquidity position has improved as marked by free cash and bank balance of Rs. 4.12 crore and liquid investments of Rs. 18.40 crore as on September 30, 2022.

Credit challenges

Moderation in profitability and debt protection metrics: The company's operating profit margin has declined from 5.7% in FY2022 to 3.4% in H1FY2023. The sharp decline was primarily led by higher raw material cost and significant increase in its employee cost due to the planned capital expansion being done by the company and thrust on penetrating export market has led to increase in its operational expenses. Although the leverage and liquidity position has improved however the sharp reduction in its operating profit has led to deterioration in its debt protection metrics with interest coverage falling from 2.77x for FY2022 to 1.89x in H1FY2023.

Exposure to high customer concentration risk: The company's sales remain concentrated with ~62% of the sales being derived from WIL in FY2022 and ~60% in H1FY2023. 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: The company's operations are characterized by intense competition owing to the relatively low technical expertise and capital requirements. BBL's growth has primarily been fueled by its relationships with WIL and other reputed players in the white goods sector. It faces competition from large organized manufacturers as well as from smaller organized 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 labor, power and fuel, remains limited by its weak bargaining power.

Exposure to project and funding risk on account of ongoing capex: The company has embarked upon expansion plan to set up three new manufacturing units in order to increase its pan India presence and the company expects total capital outlay of around Rs 27 crore for three plants of which it has already incurred around Rs 9 crore. The company plans to set up three new manufacturing units in different locations exposing it to funding and project risks

Environmental and social risks

ABS, PVC and polypropylene are the key raw material used by the injection moulded plastic products manufacturing industry. These are some of the most environmentally damaging plastics and are non-biodegradable petroleum-based products. Thus, its sustainability as well as waste reduction remains a key concern for the industry. However, company continues to address environmental concerns through investments in the technology and to increase the reuse of polypropylene which has a relatively low carbon footprint as compared to other plastics. Overall, company's exposure to environment and social risk remains moderate.

Liquidity position: Adequate

The company's liquidity position is Adequate. The company has free cash and bank balance of Rs. 4.12 crore and liquid investments (mutual funds & equity investments) of Rs. 18.40 crore as on September 30, 2022, which provides liquidity

buffer. The limit utilization averaged at 64% during the past 12 months ending November 2022, resulting in buffer of Rs. 20 crores in the sanctioned bank lines. The company has term loan outstanding of Rs 8.67 crore as its books as on September 30, 2022, with repayment obligations in the range of Rs 2.5-3 crores over the next three years, which can be met from cash flow from operations. The company has embarked upon expansion plans to increase its capacity with total capital outlay of around Rs 27 crores of which Rs 18 crore will met through term loan and remaining will be through internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings in case of significant and sustainable increase in the scale of operations as well as profitability, leading to improvement in the debt protection metrics, while maintaining a healthy liquidity position.

Negative factors – Significant decline in scale of operations or margins leading to deterioration in debt protection metrics or liquidity position on a sustained basis will be credit negative. Specific credit metrics that could lead to downgrade will be interest coverage falling below 2.5x on sustained basis.

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)

PCPL Standalone	FY2021	FY2022	H1FY2023
Operating income	202.27	230.25	117.62
PAT	5.70	31.96	-0.65
OPBDIT/OI	8.76%	5.67%	2.77%
PAT/OI	2.82%	13.88%	-0.55%
Total outside liabilities/Tangible net worth (times)	2.50	1.21	0.95
Total debt/OPBDIT (times)	4.09	3.86	9.60
Interest coverage (times)	4.09	2.77	1.89

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, interest coverage ratio is calculated on OPBDIT; Source: Company annual reports, ICRA Research.

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years						
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020			
				December 30, 2022	Oct 27, 2022	July 30, 2021	-	Jan 28, 2020	July 29, 2019	Jun 25, 2019	
1 Fund based – Term Loan	Long Term	8.97	8.67	[ICRA] BB+ (Stable)	[ICRA] BB+ (Stable); ISSUER NOT COOPERATING	[ICRA] BB+ (Stable)	-	[ICRA] BB (Stable)	[ICRA] BB (Stable)	[ICRA] BB (Stable)	
2 Fund based – bank facilities	Short Term	55.00	27.59	[ICRA] A4+	[ICRA] A4+; ISSUER NOT COOPERATING	[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	
4 Fixed deposit Programme	Medium term	-	-	-		-	-	MB+ (Stable) ISSUER NOT COOPERATING; withdrawn	MB+ (Stable) ISSUER NOT COOPERATING on notice of withdrawal	MB+ (Stable); ISSUER NOT COOPERATING ; placed on notice of withdrawal for six months	

Complexity level of the rated instrument

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 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	Long term – Fund based – Term Loan	January 2019	8.2%	June 2023	8.97	[ICRA] BB+ (Stable)
NA	Fund based – Bank facilities	NA	NA	NA	55.00	[ICRA] A4+

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not applicable

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