

Bhuruka Gases Limited

January 02, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Letter of Credit(Inland Capex LC)		101.00	[ICRA]BBB(Stable); Upgraded from [ICRA]BBB-(Positive)
Fund based- Working Capital Facilities	3.50	3.50	[ICRA]BBB(Stable); Upgraded from [ICRA]BBB-(Positive)
Non-fund based-Working Capital Facilities	2.50	2.50	[ICRA]A3+; Upgraded from [ICRA]A3
Unallocated Limits	14.00	-	
Total	20.00	107.00	

Rating action

ICRA has upgraded the long-term rating assigned to the Rs. 101-crore¹ capex inland letter of credit and Rs. 3.50-crore fund based limits of Bhuruka Gases Limited(BGL or 'the company')² from [ICRA]BBB-(pronounced ICRA triple B minus) to [ICRA]BBB(pronounced ICRA triple B). The outlook on the long term rating is Stable. ICRA has also upgraded the short term rating assigned to the Rs. 2.50-crore non-fund limits of BGL from [ICRA]A3(pronounced ICRA A three) to [ICRA]A3+(pronounced ICRA A three plus).

Rationale

The ratings upgrade factors in the increase in profitability of BGL in 7M FY2018 driven by savings in power costs due to operationalization of the captive wind power plant in July 2017 which has improved the company's cost competitiveness in the industrial gas segment, given the energy intensive nature of its operations. Furthermore, ICRA notes that healthy revenue contribution from the high-margin-yielding calibration gases segment has also translated into an improved profitability for the company over the years. The ratings also factor in the release of corporate guarantee support of \$ 6 Mn extended by BGL to non-fund based limits of PT Bhoruka Power (PTBP), a coal mining company in Indonesia, which has reduced the risk of unrelated diversification to a certain extent given that all corporate guarantees with respect to support to associate entities have been released as on date. In addition, the ratings continue to factor in the established presence of the company in the industrial gases industry and the group strength derived from being a part of the Bhoruka group of companies.

The ratings, however, continue to remain constrained by the moderate scale of operations of BGL and pricing pressure in the bulk gases segment owing to high competitive intensity, which affects the overall profitability of the company. The said risk, however, is mitigated to a certain extent by the presence of BGL in the niche calibration gases segment which yields relatively higher margins. The ratings further remain tempered by the modest return indicators (return on capital employed) of the company due to substantial investment in subsidiary Bhoruka Overseas Private Limited (BOPL) which is into coal trading in Singapore. ICRA further notes that incremental investments in the subsidiary, if any, going forward

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

could further suppress the overall return indicators of the company. The ratings also continue to remain affected by the exposure of the company's performance to the cyclicity in demand inherent in the major end-user industries such as steel and metal processing, however mitigated to a certain extent by its presence in various other segments such as healthcare, aerospace, diamond cutting, fire suppression systems etc.

Outlook: Stable

ICRA believes that BGL will benefit from the presence of a captive power plant to cater to its energy requirements by ensuring a control over costs. Furthermore, it is likely to benefit from manufacturing of niche calibration gases and supply of the same through long term agreements with Shell India, SABIC, Praxair etc. The outlook may be revised to 'Positive' if substantial growth in revenue coupled with healthy growth in profitability strengthens the financial risk profile. The outlook may be revised to 'Negative' if there is lower than expected improvement in profitability due to pricing pressure in the bulk gases division or sub-optimal performance of the wind power plant. Furthermore, incremental support offered to associate/group entities in the form of investments or corporate guarantees could adversely impact the ratings of the company going forward.

Key rating drivers

Credit strengths

Established presence in the industrial gases segment – BGL has over four decades of presence in the industrial gases industry and has established relationships with both customers and suppliers.

Group strength from being a part of Bhoruka group of companies – BGL is a part of the Bhoruka group of industries which has presence in Renewable Power (Small Hydro Power, Wind), manufacturing of refractory, Stevedoring and development of IT parks.

Sustainable cost advantage due to presence of a captive power plant – Power is one of the major cost components for the industrial gas manufacturing units. Hence, in order to enhance its cost competitiveness, BGL setup a captive power plant (at a cost of Rs. 115 crore), which commenced operations in July 2017. Presence of a captive power unit has resulted in cost savings and has driven profitability growth for the company in 7M FY2018.

Release of corporate guarantee to associate entities – BGL had given a corporate guarantee of \$ 6Mn given on behalf of its subsidiary BOPL to associate company Pt Bhoruka Power Jakarta. However, in June 2017, the said guarantee was released and has reduced the risk of unrelated diversification for the company to a certain extent.

Increasing contribution from the niche calibration gases segment to drive BGL's profitability growth - Over the years, BGL diversified its presence from bulk gases into the remunerative calibrated gases and import substitute ultra-high pure gases. While the volume sales in this segment low, the impact on profitability is high. Also, while the bulk gases industry is commoditized with high reliance on automatic processes to manufacture the products, calibration gases, on the other hand are characterized by high purity and customized mixing requirements (manufactured on made to order basis) and support the profitability of the company. The contribution from the calibration gases segment increased from 25% in FY2015 to 45-50% in H1 FY2018.

Credit weaknesses

High competitive intensity and pricing pressure in bulk gases segment – While the industrial gases industry is characterized by large players accounting a considerable market share, in the bulk gases segment, there are several small players leading to high competitive intensity and pricing pressure. However, BGL's presence in the niche calibration gases segment and its superior quality control mitigates the said risk to a certain extent

Subdued return indicators due to substantial investment in Singapore Subsidiary – BGL has an investment of about Rs. 63 crore in its subsidiary BOPL which is currently into trading of coal (earlier an investment vehicle). While around Rs. 30-35 crore of the same has been funded via unsecured interest free loans from promoters, the remaining was through the company's cashflows. Substantial investment in subsidiary with nominal returns has resulted in subdued return indicators for the company. Thus, incremental investment, if any, could further suppress the return indicators of BGL going forward.

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:

Bhuruka Gases Limited (BGL) is based in Bengaluru and manufactures industrial and rare gases for industrial and calibration requirements. 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 in its manufacturing facilities.

In FY2017, the company reported a net profit of Rs. 7.31 crore on an operating income of Rs. 67.61 crore, as compared to a net profit of Rs. 8.60 crore on an operating income of Rs. 67.47 crore in the previous year.

Key Financial Indicators (Audited)

	FY2016	FY2017	7M FY2018*
Operating Income (Rs. crore)	67.47	67.61	44.25
PAT (Rs. crore)	8.60	7.31	6.46
OPBDIT/ OI (%)	23.98%	25.03%	38.05%
RoCE (%)	12.87%	10.52%	
Total Debt/ TNW (times)	0.43	1.23	
Total Debt/ OPBDIT (times)	2.11	6.37	
Interest coverage (times)	18.18	43.63	4.63
NWC/ OI (%)	18%	23%	

**Provisional Details; only P&L available*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating Jan 2018	Date & Rating in FY2018 Jun 2017	Date & Rating in FY2017 Oct 2016	Date & Rating in FY2016 Feb 2016
1 Letter of Credit(Inland Capex LC)	Long Term	101.00	101.00	[ICRA]BBB (Stable)	-	-	-
2 Fund-based facilities	Long Term	3.50	-	[ICRA]BBB (Stable)	[ICRA]BBB -(Positive)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Positive)
3 Non-fund Based Facilities	Short Term	2.50	-	[ICRA]A3+	[ICRA]A3	[ICRA]A4	[ICRA]A4

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
NA	Letter of Credit	NA	NA	2 years	101.00	[ICRA]BBB(Stable)
NA	Cash Credit	NA	NA	NA	3.50	[ICRA]BBB(Stable)
NA	Non-fund based facilities	NA	NA	-	2.50	[ICRA]A3+

Source: Bhuruka Gases Limited

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