

Bhuruka Gases Limited

April 05, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Term Loan	-	75.00	[ICRA]BBB(Stable); reaffirmed
Non-fund based - Letter of Credit	101.00	-	-
Fund based - Working Capital Facilities	3.50	3.50	[ICRA]BBB(Stable); reaffirmed
Non-fund based - Working Capital Facilities	2.50	2.50	[ICRA]A3+; reaffirmed
Total	107.00	81.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation continues to favourably factor in Bhuruka Gases Limited's (BGL) established presence in the industrial gases industry, particularly in the high-margin yielding calibration gases segment. The ratings further take note of the savings in power costs with the commencement of power supply by the captive wind power plant in July 2017. This would remain a sustainable cost-competitive advantage for the company in the industrial gases segment, given the energy intensive nature of its operations. ICRA continues to draw comfort from the higher share of revenue contribution from the high-margin yielding calibration gases segment, which has translated into healthy profitability for the company over the years.

The ratings, however, remain constrained by BGL's moderate scale of operations and pricing pressure in the bulk gases segment owing to intense competition, which affects its overall profitability. This risk is, however, mitigated to a certain extent by BGL's presence in the niche calibration gases segment, which yields relatively higher margins. The ratings also 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. Nevertheless, this is mitigated to a certain extent by BGL's presence in various other segments such as healthcare, aerospace, diamond cutting and fire suppression systems, etc. The ratings also remain tempered by the company's subdued return indicators (return on capital employed) due to its investment in its subsidiary, Bhuruka Overseas Private Limited (BOPL), which is involved in coal trading in Singapore. BGL wrote off its investment of Rs. 37.4 crore in BOPL in FY2018 due to the continued losses made by it. As a result, any further support to or incremental investments in the financially weak Group entities as well as any other non-related businesses within the Group remain key rating sensitivities for the company.

Outlook: Stable

ICRA believes that BGL will continue to benefit from the presence of a captive wind power plant, which caters to its energy requirements and ensures a control over costs. Furthermore, it is likely to benefit from the manufacturing of niche calibration gases along with the experience of its management in this industry. The outlook may be revised to Positive if substantial growth in revenue and healthy growth in profitability strengthen the financial risk profile. The outlook may be revised to Negative on a lower-than-expected improvement in profitability due to pricing pressure or the suboptimal performance of the wind power plant. Moreover, incremental support offered to associate/Group entities in the form of investments or corporate guarantees could adversely impact BGL's ratings, going forward.

Key rating drivers

Credit strengths

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

Sustainable cost advantage due to presence of captive power plant – Power is one of the major cost components for the industrial gas manufacturing units. Hence, to enhance its cost competitiveness, BGL set up a captive wind power plant, which commenced operations in July 2017. The presence of a captive power plant has resulted in cost savings and has driven profitability growth for the company in FY2018 and 9M FY2019.

Major contribution from calibration gases segment and improving bulk gas prices drive BGL's profitability growth – Over the years, BGL diversified its presence in the lucrative calibrated gases segment and imports substitute ultra-high pure gases. This is evident from the increase in revenue contribution from the calibration gases segment from 25% in FY2015 to 45-50% in FY2017 and FY2018, with the same remaining in this range in H1 FY2019 as well.

Credit challenges

Intense competition and pricing pressure in bulk gases segment – While the industrial gases industry is characterised by large players accounting for a considerable share of the bulk gases segment, there are several small players as well. This leads to 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.

Exposure to cyclicity of end-user industries – BGL's performance remains exposed to the cyclicity in demand inherent in the 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 remains a concern – In FY2018, BGL had written off an investment of Rs. 37.4 crore in its subsidiary, BOPL, because of continued losses made by it. Also, the financial performance of a Group company, Bhoruka Power Corporation Limited (BPCL), remains weak. Thus, any further investments or support to the Group companies could suppress BGL's return indicators and impact its credit profile, going forward.

Liquidity position

As on March 31, 2018, the company had a cash balance of Rs. 0.83 crore and access to sanctioned fund-based limits of Rs. 3.50 crore. The long-term debt availed by BGL in FY2019 comprises a term loan of Rs. 75 crore for the funding of the captive wind power plant. In FY2019 and FY2020, the repayment obligation for this loan is Rs. 3.90 crore and Rs. 9.38 crore, respectively. The expected cash accruals from operations are expected to surpass the interest and repayment obligations of the company. Also, in FY2019, BGL had incurred a capex of ~Rs. 15 crore towards the shifting of its propane plant to Indapur from Hirohalli.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Bhuruka Gases Limited (BGL), incorporated in 1974, 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 a presence in the renewable energy segment refractory manufacturing, stevedoring and development of IT parks. The company manufactures bulk gases, imports substitute high purity gases and calibration gases in its manufacturing facilities.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	67.61	71.90
PAT (Rs. crore)	7.31	-27.25
OPBDIT/ OI (%)	24.82%	42.05%
RoCE (%)	10.65%	-10.25%
Total Debt/ TNW (times)	1.21	2.14
Total Debt/ OPBDIT (times)	6.23	4.18
Interest Coverage (times)	68.38	3.66
NWC/ OI (%)	24.6%	15.4%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating April 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1 Term Loan – Fund Based	Long Term	75.00	71.10	[ICRA]BBB (Stable)	-	-	-
2 Capex LC	Long Term	0.00	0	-	-	[ICRA]BBB(Stable)	-
3 Fund-based facilities	Long Term	3.50	-	[ICRA]BBB (Stable)	-	[ICRA]BBB(Stable)	[ICRA]BBB- (Positive)
4 Non-fund Based Facilities	Short Term	2.50	-	[ICRA]A3+	-	[ICRA]A3+	[ICRA]A3

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	Term Loan - Fund Based	FY2019	9.50%	FY2027	75.00	[ICRA]BBB (Stable)
NA	Cash Credit	-	-	-	3.50	[ICRA]BBB (Stable)
NA	Non-fund Based Limits	-	-	-	2.50	[ICRA]A3+

Source: BGL

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

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