

July 29, 2019

Bright Brothers Limited: Issuer rating withdrawn

Summary of rating action:

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action ¹
Issuer rating	0.00	0.00	[ICRA]BB(Stable); Withdrawn
Long-term: Fund-based – Term loan	8.97	8.97	[ICRA]BB(Stable); Outstanding
Short-term: Fund-based – Bill discounting	30.00	30.00	[ICRA]A4+; Outstanding
Medium-term: Fixed deposit programme	1.86	1.86	MB+(Stable) ISSUER NOT COOPERATING; continues on notice of withdrawal

Rationale

The issuer rating is withdrawn in accordance with ICRA's policy on withdrawal and suspension, at the request of the company.

The outstanding bank loan ratings continues to favourably factor in the extensive experience of the promoters of Bright Brothers Limited (BBL) and its established track record in the moulded plastic products manufacturing business, its reputed client base and comfortable capital structure. The ratings, however, continue to remain constrained by BBL's low profit margins, moderate debt coverage indicators and high customer concentration risk with a single largest customer constituting 66% of the total sales in FY2019. The rating also factors in the high dividend payout by the company, constricting the net worth at ~Rs. 42 crore over last three fiscals. Coupled with expected increase in overall debt levels because of higher working capital borrowings and debt-funded capex, this is likely to moderate the capitalisation and debt coverage from current levels. The rating also considers the intense competition in the moulded plastic components industry, which along with high bargaining power of the larger customers restricts the company's pricing flexibility.

The medium-term fixed deposit rating of MB+(Stable)/ISSUER NON-COOPERATION continues on notice of withdrawal, before being withdrawn at the end of the withdrawal notice period.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA expects BBL to continue to benefit from the extensive experience of its promoters and its sizeable market share in the domestic market. The outlook may be revised to Positive if substantial growth in revenue and profitability along with efficient management of working capital strengthens the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if higher-than-anticipated debt-funded capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience and established track record in the moulded plastic products manufacturing business - BBL commenced operations as a private limited company in 1947, led by Mr. T. W. Bhojwani. His son Mr. Suresh Bhojwani is the present chairman and managing director 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 its key clients. The promoters also have business interests in T. W. Bhojwani Leasing Private Limited and Quality Plastics, involved in manufacturing plastic combs and hair brushes.

Reputed clientele comprising leading manufacturers of consumer durables; repeat orders from clients - The company's client base consists of reputed consumer durable companies like Whirlpool of India Limited (WIL) and Eureka Forbes Ltd., which constituted 66% and 15%, respectively, of BBL's total sales in FY2019. BBL shares an established relationship of over 25 years with its key clients and is able to garner significant repeat business from them each year.

Comfortable capital structure at present - The company's capital structure is comfortable at present, with low gearing at 0.32 time as on March 31, 2019 (compared to 0.21 time as on March 31, 2018), due to the limited overall debt levels in comparison to its net worth.

Credit challenges

Financial profile characterised by low profitability margins and moderate debt coverage indicators - Despite a CAGR of 7.3% to Rs. 230.79 crore in FY2019 from Rs. 162.43 crore in FY2015, the operating margins are low at 4–6% levels. This is primarily because of the processing-based nature of its operations and its limited ability to pass on the increase in conversion expenses to customers, given the limited bargaining power. The net margins are weak at below 1% due to the high financial and depreciation charges.

High customer concentration with WIL accounting for ~66% of the total sales in FY2019 - The company's sales remain concentrated on one customer, WIL, who accounted for 66% of the overall revenues in FY2019 (68% in FY2018), thereby exposing it to high customer concentration risk. However, BBL has been in business with WIL for over 25 years, which insulates the risk to an extent.

High dividend pay-out constricting the net worth position; expected increase in overall debt levels – The company pays an annual dividend of Rs. 1.36 crore (including dividend distribution tax). This forms a sizeable part of its profits and thus has constricted its net worth at ~Rs. 42 crore over the last three fiscals. Coupled with anticipated increase in borrowings towards working capital (bill discounting from bank) and capital expenditure in the near-term, this is likely to moderate the capitalisation and debt coverage indicators of the company.

Limited ability to pass on the increase in conversion expenses to customers due to low bargaining power - BBL procures its raw materials acrylonitrile butadiene styrene (ABS), polypropylene (PP) and high impact polystyrene (HIPS) from WIL's approved suppliers, which insulates it from any adverse fluctuations in raw material prices. However, 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 low bargaining power, which also reflects in BBL's low profitability margins.

Operations vulnerable to downturn in the consumer durables market with stiff competition from reputed domestic and foreign players - 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 the demand indicators in the consumer durables market in India.

Sizeable capital expenditure requirements as witnessed in the past - The company has incurred a capital expenditure of ~Rs. 10.0 crore in FY2019 towards capacity augmentation at its plants (to 14,800 MTPA from 14,240 MTPA), funded through a mix of term loans, liquidation of its investments and unsecured promoter loans. Further, BBL plans to incur ~Rs. 5.0 crore towards capacity expansion in FY2020 (to ~15,300 MTPA from 14,500 MTPA), to be funded predominantly through debt-equity mix of 50-50%. The debt-funded capex and incremental working capital borrowings are likely to increase the overall debt levels, going forward.

Liquidity position

BBL had external term loans of Rs. 6.07 crore on its books as on March 31, 2019 to be repaid by FY2023. It has scheduled repayment obligations of Rs. 2.32 crore in FY2020 and Rs. 1.19 crore in FY2021 towards these. BBL had adequate cash and liquid investments of Rs. 6.23 crore (of which encumbered cash is Rs. 0.70 crore) as on March 31, 2019, which provides support to the liquidity position. The company has reported positive fund flow from its operations for the FY2015 to FY2019 period due to the low working capital intensity of its operations. The working capital utilisation (bill discounting facility) has remained moderate with average utilisation of 57% during April–May 2019.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Policy on Withdrawal and Suspension of Credit Rating Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Ratings are based on standalone financial statements of BBL

About the company

Incorporated in 1947, BBL is involved in manufacturing 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. BBL has five manufacturing units currently—two in Puducherry and one each in Faridabad (Haryana), Bhimtal (Uttarakhand) and Dehradun (Uttarakhand).

BBL reported a profit after tax (PAT) of Rs. 2.00 crore on an OI of Rs. 230.79 crore in FY2019 as compared to PAT of Rs. 1.20 crore on an OI of Rs. 216.97 crore in FY2018.

Key financial indicators (Audited)

	FY2017	FY2018	FY2019
Operating Income (Rs. crore)	183.53	216.97	230.79
PAT (Rs. crore)	-0.27	1.20	2.00
OPBDIT/ OI (%)	4.20%	5.24%	5.93%
RoCE (%)	8.70%	13.51%	15.23%
Total Debt/ TNW (times)	0.17	0.21	0.32
Total Debt/ OPBDIT (times)	0.94	0.76	1.01
Interest Coverage (times)	1.72	1.96	2.20

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
				Jul-19	Jun-19	May-18	Feb-18	Jan-17	
1 Term Loan	Long-term	8.97	6.07	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-	-	
2 Bill discounting	Short-term	30.00	-	[ICRA]A4+	[ICRA]A4+	-	-	-	
3 Fixed deposit programme	Medium-term	1.86	-	MB+(Stable) ISSUER NOT COOPERATING; continues 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	MB+ (Stable) / ISSUER NOT COOPERATING	
4 Issuer rating	-	0.00	-	[ICRA]BB (Stable); Withdrawn	[ICRA]BB (Stable); placed on notice of withdrawal for one month	[ICRA]BB (Stable)	-	-	

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	January 2019	9.90% p.a.	February 2023	8.97	[ICRA]BB(Stable); Outstanding
NA	Bill Discounting	-	-	-	30.00	[ICRA]A4+; Outstanding
NA	Fixed deposit programme	-	-	-	1.86	MB+(Stable) ISSUER NOT COOPERATING; continues on notice of withdrawal
NA	Issuer rating	-	-	-	0.00	[ICRA]BB(Stable); Withdrawn

Source: BBL

Annexure-2: List of entities considered for consolidated analysis: NA

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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