

January 28, 2020

Bright Brothers Limited: Rating reaffirmed for bank facilities and rated amount enhanced; Rating for fixed deposit programme withdrawn

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
Short-term: Fund-based – Bill discounting	30.00	45.00	[ICRA]A4+; Reaffirmed
Medium-term: Fixed deposit programme	1.86	0.00	MB+(Stable) ISSUER NOT COOPERATING; Withdrawn
Total	40.83	55.83	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the rating takes into account the extensive experience of the promoters of Bright Brothers Limited (BBL), its established track record in the moulded plastic products manufacturing business and its reputed client base ensuring significant repeat business. The ratings also favourably consider BBL's comfortable capital structure coupled with low working capital intensity due to favourable receivable cycle. Further, the rating also draws comfort from the improvement in the company's operating profitability margin in H1 FY2020 due to process improvements and value-added activities like painting work for existing clients.

The rating, however, continues to remain constrained by BBL's high interest cost and depreciation charges, which keeps net profitability under check. Further, the rating remains constrained by the company's exposure to high customer concentration risk with a single customer constituting over 50% of the total sales in past fiscals. The rating also takes note of the high dividend payout by the company, which coupled with expected increase in overall debt levels because of higher working capital borrowings and debt-funded capex, is likely to moderate the capitalisation and debt coverage from its current levels. The rating also remains constrained by the intense competition in the moulded plastic components industry, which along with limited bargaining power of the company with its established customers, restricts the company's pricing flexibility. ICRA notes that the business remains capital intensive as can be witnessed from its asset turnover ratio of 2.28 times as on September 30, 2019.

The medium-term fixed deposit rating of 'MB+(Stable) Issuer non cooperation' for BBL, which was under notice of withdrawal, has been withdrawn in accordance with ICRA's policy on withdrawal and suspension. The rating is withdrawn as the period of notice of withdrawal is completed.

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 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 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 53% and 11%, respectively, of BBL's total sales in 8M FY2020. 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 as on September 30, 2019, low working capital intensity - The company's capital structure is comfortable at present, with low gearing at 0.32 time as on September 30, 2019 (0.32 time as on March 31, 2019), due to the limited overall debt levels in comparison to its net worth. The working capital intensity remains low as reflected by NWC/OI of 3% as on September 30, 2019 supported by faster receivables cycle.

Improvement in operating profitability margin witnessed in H1 FY2020 – The operating margins of the company increased to 7.66% in H1 FY2020 compared to 5.93% in FY2019 as a result of various process improvements undertaken over last 1-2 years as well as value additive activities like paint jobs undertaken for WIL and other customers.

Credit challenges

High dividend payout coupled with increase in borrowings may lead to moderation of the capital structure and debt coverage indicators – The company pays an annual dividend of Rs. 1.37 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 FY2017-FY2019. Coupled with high working capital borrowings (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. The net worth has, however, improved to Rs. 44.72 crore as on September 30, 2019 despite high dividend payout due to healthy cash accruals.

High customer concentration with WIL accounting for ~53% of the total sales in H1 FY2020 - The company's sales remain concentrated on one customer, WIL, who accounted for 53% of the overall revenues in H1 FY2020 (66% in FY2019), 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 interest expense and depreciation charges continue to put pressure on net profitability level – The net profit margins, although improved to 2.89% in H1 FY2020 from 0.87% in FY2019, continue to remain low due to high interest cost (from high utilisation of bill discounting limits and interest bearing promoter loans) and depreciation charges.

Operations vulnerable to downturn in the consumer durables market with stiff competition from reputed domestic and foreign players; limited bargaining power with established customers - 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. 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 labour, power and fuel, remains limited by its limited bargaining power.

Highly capital intensive business – BBL's business remains capital intensive, with high incremental investments in gross block over the years. The gross block increased to Rs. 106.72 crore as on March 31, 2019 and operating income / gross block stood at 228%. The company incurred a capital expenditure of ~Rs. 10.0 crore in FY2019 towards capacity augmentation at its plants (to 14,600 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. 3.0 crore towards capacity expansion in FY2020 (to ~14,800 MTPA from 14,600 MTPA), to be funded by bank debt of Rs. 2 crore and remaining through internal accruals. The debt-funded capex and incremental working capital borrowings are likely to increase the overall debt levels, going forward.

Liquidity position: Adequate

BBL had external term loans of Rs. 6.28 crore on its books as on September 30, 2019 to be repaid by FY2023. It has scheduled repayment obligations of Rs. 2.32 crore in FY2020, Rs. 1.19 crore in FY2021 and Rs. 1.32 crore in FY2022 towards these. BBL had adequate free cash and bank balance of Rs. 2.0 crore and liquid investments of Rs. 4.05 crore as on September 30, 2019, providing 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 74% during April–December 2019.

Rating sensitivities

Positive triggers – Improvement in the financial risk profile supported by healthy revenue growth, and increase in profitability resulting in improved debt coverage indicators will be the key drivers for a rating upgrade. Other factors that may lead to upgrade include Adjusted TD/OPBDITA (including bill discounting facility) below 3.0 times on a sustained basis.

Negative triggers – Downward pressure on the ratings could emerge if cash accrual is lower than expected, or if higher-than-anticipated debt-funded capex, or a stretch in the working capital cycle, weakens the liquidity position. Other factors that may lead to downgrade include Adjusted TD/OPBDITA (including bill discounting facility) over 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is 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). It is also setting up a third unit at Puducherry in the current fiscal.

BBL reported a profit after tax (PAT) of Rs. 2.00 crore on an OI of Rs. 230.78 crore in FY2019 as compared to PAT of Rs. 1.20 crore on an OI of Rs. 214.41 crore in FY2018. For H1 FY2020, BBL reported a PAT of Rs. 3.50 crore on an OI of Rs. 121.13 crore.

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	H1 FY2020 (Unaudited)
Operating Income (Rs. crore)	214.41	230.78	121.13
PAT (Rs. crore)	1.20	2.00	3.50
OPBDIT/ OI (%)	5.30%	5.93%	7.66%
RoCE (%)	13.69%	15.23%	22.05%
Total Outside Liabilities/Tangible Net Worth (times)	1.08	1.04	1.03
Total Debt/ OPBDIT (times)	0.76	1.01	0.77
Interest Coverage (times)	1.96	2.20	3.20
DSCR	2.12	1.38	1.82

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

	Instrument	Type	Amount Rate d	Current Rating (FY2020)			Rating History for the Past 3 years			
				Amount Outstanding	Rating			FY2019	FY2018	FY2017
					28-Jan-20	29-Jul-19	25-Jun-19			
1	Term Loan	Long-term	8.97	6.28	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-	-
2	Bill discounting	Short-term	45.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-	-	-
3	Fixed deposit programme	Medium-term	1.86	-	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	MB+ (Stable) ISSUER NOT COOPERATING	MB+ (Stable) ISSUER NOT COOPERATING	MB+ (Stable) ISSUER NOT COOPERATING
4	Issuer rating	-	-	-	-	[ICRA]BB (Stable); Withdrawn	[ICRA]BB (Stable); placed on notice of withdrawal for one month	[ICRA]BB (Stable)	-	-

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	January 2019	9.50% p.a.	February 2023	8.97	[ICRA]BB(Stable)
NA	Bill Discounting	-	-	-	45.00	[ICRA]A4+
NA	Fixed deposit programme	-	-	-	1.86	MB+(Stable) ISSUER NOT COOPERATING; Withdrawn

Source: BBL

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

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