

August 27, 2020

Bhuruka Gases Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Term Loan	75.00	60.00	[ICRA]BBB (Stable); Reaffirmed
Fund based- Working Capital Facilities	3.50	3.50	[ICRA]BBB (Stable); Reaffirmed
Non-fund Based Limits- Working Capital Facilities	2.50	2.50	[ICRA]A3+; Reaffirmed
Total	81.00	66.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation in ratings considers the established presence of Bhuruka Gas Limited (BGL) in the industrial gases industry, the large customer base, and a varied product profile, including the niche calibration gases segment. The ratings further positively take note of the sustained savings in power costs achieved by BGL, following the commencement of power supply from its captive wind power plant in July 2017. This would remain a sustainable cost-competitive advantage for the company in the industrial gases segment, given its energy intensive operations. This along with the higher share of revenue contribution (40-48% over FY2016-FY2020) from the high-margin yielding calibration gases segment has resulted in healthy operating profitability for BGL. The healthy profitability at the operating level and the one-time gain from compensation for the company's land acquired by Bangalore Metro project improved a profit after tax to Rs. 29.07 crore in FY2020 from Rs. 0.20 crore in FY2019. This in turn led to an improvement in the gearing level and the debt coverage metrics and enabled the company to prepay its long-term debt of Rs. 4.0 crore.

The ratings, however, remain constrained by BGL's moderate scale of operations and intense competition from both the organised and unorganised segments, especially in the bulk gases segment. This risk is, however, mitigated to some extent by BGL's presence in the niche calibration gases segment. Also, ICRA takes a note of the adverse impact of the lockdown amid the Covid-19 pandemic on the production of gases and revenues in Q1FY2021 and to some extent in Q4 FY2020. This along with the subdued prospects of end-user industries in the near term because of the Covid-19 situation, is expected to erode the revenues and profitability of BGL in FY2021. Further, the ratings also remain constrained by the exposure to the demand cyclicity inherent in the major end-user industries such as steel and metal processing industries. Nevertheless, this is mitigated to some extent by BGL's presence in various other segments such as healthcare, chemicals, pharmaceutical, and fire suppression systems. ICRA further takes a note of advances extended by BGL to a group company, Bhuruka Power Corporation Limited (BPCL), in the form of inter-corporate deposits (ICDs) to the tune of Rs. 32.38 crore as on March 31, 2020. While the deposits are partly funded by the ICDs extended by another group company, Bhuruka Park Private Limited (BPPL) to BGL, the exposure to weak group companies remains a credit concern for the company. In addition, BGL had written off its investment to the tune of Rs. 58.90 crore in its subsidiary, Bhuruka Overseas Private Limited (BOPL) over FY2018 and FY2019, because of the losses reported by this entity. 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.

The stable outlook assigned to the company factors in BGL's established track record of operations, cost competitive operations and moderate leverage level.

ICRA notes that BGL had sought a moratorium on principal payments from its lender for the payments on the term loan until August 31, 2020 and the lender has approved the same, as allowed per the COVID-19 - Regulatory Package announced by the Reserve Bank of India on March 27, 2020 and May 23, 2020. The above rescheduling of loans has been factored in the ratings.

Key rating drivers and their description

Credit strengths

Long track record of operations in industrial gases segment - BGL has a long track record of operations of over four decades in the industrial gases industry, supported by extensive experience of the promoters along with a large customer base and varied product profile.

Sustainable cost advantage due to presence of captive power plant – The industrial gas manufacturing sector is energy intensive and power cost is one of the major cost components. The presence of a captive wind power plant, which was commissioned in July 2017 by BGL, has reduced the power costs significantly and the cost savings has steered the improvement in operating profitability in FY2018 and FY2019, which has sustained in FY2020.

Growing contribution from calibration gases supports BGL's profitability - Over the years, BGL diversified its presence in the lucrative calibrated gases segment and imports substitute ultra-high pure gases which has supported the profitability. This is evident from the increase in revenue contribution from the calibration gases segment from 25% in FY2015 to 45-50% in FY2019 and FY2020.

Credit challenges

Modest scale of operation and intense competition - BGL has modest scale of operations and the industrial gases industry is characterised by presence of large organized players and a large number of smaller players as well. This leads to competitive intensity and pricing pressure. However, BGL's presence in the niche calibration gases segment, customized product profile 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 especially considering the current subdued growth prospects in the economy due to the Covid-19 pandemic. However, this is mitigated to a certain extent by its presence in various other segments such as healthcare, chemicals, pharmaceutical and fire suppression systems, etc.

Financial profile of Group companies remains a concern - BGL had written off an investment to the tune of Rs. 58.90 crore over FY2018 and FY2019 in its subsidiary, BOPL, because of continued losses made by this company. Also, BGL has extended funding support to a financial weaker group company – BPCL, in the form of ICDs amounting to Rs. 32.38 crore as on March 31, 2020. Any further investments or support by BGL to the Group companies could adversely impact its liquidity profile.

Liquidity position: Adequate

The liquidity position of the company is adequate supported by the healthy profitability levels and positive cash flow from operations. The cash flows are expected to remain adequate to meet the debt servicing obligations on the outstanding external long-term debt of Rs. 57.72 crore and the working capital facilities. As on June 30, 2020, the company had a cash balance of Rs. 2.0 crore and access to undrawn fund-based limits of Rs. 3.1 crore.

Rating sensitivities

Positive triggers – The rating can be upgraded if the company achieves a scale up in its revenues, while maintaining its profitability and debt protection metrics. Specific credit metric that can lead to an upgrade include return on capital employed above 15% on a sustained basis.

Negative triggers – The downward pressure on rating could arise in case of a material decline in the revenues and profitability of the company leading to adverse impact on the debt coverage metrics. Further, additional investments or support to the Group companies, leading to a weakening of its liquidity position, may lead to negative pressure on the rating.

Analytical approach

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

About the company

BGL, established in 1974 is a manufacturer of industrial and rare gases for industrial and calibration requirements. The company is based out of Bangalore, with manufacturing facilities in Karnataka (Mahadevapura and Harohalli), Chennai and Pune. The company manufactures bulk gases, import substitute high purity gases and calibration gases in its manufacturing facilities. It is a part of the Bhoruka group which has presence in renewable power, manufacturing of refractory, stevedoring and development of IT parks.

Key financial indicators

	FY2019 (Audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	85.12	82.04
PAT (Rs. crore)	0.20	29.07
OPBDIT/OI (%)	56.74%	51.40%
PAT/OI (%)	0.23%	35.44%
Total Outside Liabilities/Tangible Net Worth (times)	2.64	1.57
Total Debt/OPBDIT (times)	2.49	2.44
Interest Coverage (times)	5.40	6.17

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years:

Instrument		Current Rating (FY2021)			Chronology of Rating History for the past 3 years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018	
					27-Aug-2020	05-Apr-2019	-	02-Jan-2018	28-Jun-2017
1	Term Loan-Fund Based Limits	Long Term	60.00	57.72	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-	-
2	Capex LC	Long Term	0.00	-	-	-	-	[ICRA]BBB (Stable)	-
3	Fund-Based facilities	Long Term	3.50		[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)
4	Non-fund Based facilities	Short Term	2.50	-	[ICRA]A3+	[ICRA]A3+	-	[ICRA]A3+	[ICRA]A3

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	Fund-based Limits	Sep-2018	9.50%	Oct-2026	60.00	[ICRA]BBB (Stable)
NA	Fund-based Limits- Working Capital	-	-	-	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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