Press Release

Bhunit Engineering Company Private Limited

March 03, 2020

Ratings

Sl. No.	Instrument/Facility	Present Rating Amount (Rs. Crore)	Rating	Rating Action
1.	Long Term Debt - Term Loan	9.84* (Reduced from 12.55)	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Reaffirmed
2.	Long Term Fund Based Limits	7.00 (including proposed limit of Rs.4.00 crore)	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Reaffirmed
	Total	**16.84**		

**Outstanding as of January, 2020.*

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Bhunit Engineering Company Private Limited (BEPL) continues to derive strength from its experienced promoters and management, synergy with group companies engaged in the similar lines of business, established clientele, and diversified product portfolio. The ratings also positively factors in improvement in its capital structure and debt protection parameters. The ratings however are constrained by its modest scale of operation, exposure to volatility in raw material prices and exchange rate fluctuations, stretched operating cycle, clientele concentration and intense competition among industry players.

Key Rating Sensitivities:

Upward Rating Factors

- Growth in scale of operations and profitability on a sustained basis
- Further improvement in profit margin leading to improvement in liquidity
- Improvement in operating cycle

Downward Rating Factors

- Moderation in total operating income and/or profitability impacting the liquidity or debt protection metrics
- Elongation in working capital cycle affecting the liquidity profile
- Weakening in the capital structure and/or withdrawal of sub-ordinated unsecured loans

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoter and management**

BEPL was originally founded and promoted by the Rana family of Faridabad. It was taken over by the Victora group promoted by Mr. G.S. Banga, belonging to the Banga family of Faridabad in March 2017. Post takeover by the group, BEPL is currently being managed by his son - Mr. Hardeep Singh Banga, technocrat having more than 30 years of experience in managing auto component businesses.

- **Synergy with group companies and established clientele**

The Victora group is well established in the automobile equipment-manufacturing segment. BEPL derives a substantial portion of its revenues by way of machining job work to its group companies, Victora Auto Private Limited and Victora Automotive Inc. However, the Victora group has developed long lasting relationships with OEM's and Tier I players and being a part of the group BEPL is expected to be benefited.

- **Diversified product portfolio**

The company is engaged in manufacturing various aluminium casting components catering to the needs of clientele across the auto and auto component sectors. A diversified product portfolio enables the company to spread its risk across different products and reducing dependency on single/few products.

- **Improvement in capital structure and debt protection parameters**

The overall gearing ratio has improved from 0.85x as of FY18 to 0.68x as of FY19 driven by accrual of profit to net worth and scheduled repayment of term loans. Further, TOL/TNW also improved and stood at 0.89x as on March 31, 2019 (1.05x as on March 31, 2018). To arrive at the net worth, Infomerics has considered Rs.13.23 crore of unsecured loans from promoters/ directors as quasi equity as the same is sub-ordinated to the bank facilities. The debt protection metrics also improved in FY19 marked by improvement in its interest coverage ratio from 2.49x in FY18 to 2.95x in FY19 and Total debt to GCA from 7.05x in FY18 to 4.76x in FY19.

Key Weaknesses

- **Modest scale of operations**

The scale of operations of the company continued to remain modest with total operating income at Rs.36.66 crore in FY19. During FY19 the total operating revenue remained almost stagnant with marginal y-o-y moderation of ~5% as compared to FY18. However, despite moderation in its total operating income the company witnessed an improvement in its EBITDA margin and PAT margin from 10.57% and 0.36% respectively in FY18 to 12.54% and 1.45% respectively in FY19 mainly due to better management of operating cost and pricing terms. During 9MFY20, the company has achieved a total operating income of Rs.22.39 crore.

- **Exposure to volatility in raw material prices and exchange rate fluctuations**

The key raw material used by the company – aluminum is an internationally traded commodity. Its prices are driven by international markets and are susceptible to volatility. Procurement contracts in the automobile industry are executed for the long term and are revised for any price revisions in raw material prices. In FY19, aluminum used by the company stood at ~61 percent of total raw material consumed. Though, the company can pass on the impact of raw material price changes to its clientele, its margins still continue to be susceptible to volatility.

- **Stretched operating cycle**

The company has elongated inventory days (77 days in FY19) driven by its high raw material holding period. Debtor days and creditor days during the same period stood at 80 days and 27 days respectively. With the new promoters coming in, operating cycle has dome down substantially from around 198 days in FY17 to about 104 days in FY19, though it continues to be high.

- **Clientele concentration**

Though the company has established clientele, top seven clients comprise ~87 per cent of the total revenue for FY2019. This indicates client concentration risk.

- **Intense competition among players**

The company is primarily an aluminium die casting component manufacturer, manufacturing and supplying components to Indian and Global auto OEM's and Tier 1 players. With the growing number of players in India and abroad, this creates a pressure on market participants to supply quality goods at competitive prices. However, it is not feasible for any customer to change vendor as the time required to develop, approve and produce/ship the components is very high.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity profile of BEPL is expected to remain adequate marked by its expected satisfactory cash accruals of ~Rs.3.08 crore vis-a-vis its debt repayment obligations aggregating to ~Rs.2.21 crore in FY20. Further, average utilization of its fund based limits during the past twelve months ended on January, 2020 remained moderate at ~82% indicating a moderate buffer.

About the Company

Bhunit Engineering Co. Private Limited (BEPL) was incorporated as a private limited company in 1995. It was originally promoted by the Rana family and commenced operations in 2013. The company was taken over by the Banga family (Victora Group) in March 2017. The company is engaged in the business of manufacturing aluminium casting automotive components. The company is a part of the Victora group having interests in the auto component and hospitality business. The day to day operations of the company are currently looked after by Mr. Hardeep Singh Banga and his son – Mr. Amitbir Singh Banga. The promoters have an experience of close to 50 years in the business of sheet metal products and components. The company is an ISO 9001:2008 certified organisation.

Financials (Standalone Basis): **(Rs. crores)**

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	38.43	36.66
EBITDA	4.06	4.60
PAT	0.14	0.53
Total Debt	17.91	14.66
Tangible Networth	21.02	21.78
EBITDA Margin (%)	10.57	12.54
PAT Margin (%)	0.36	1.45
Overall Gearing Ratio (x)	0.85	0.68

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	**Amount outstanding (Rs. crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2018-19**	**Date(s) & Rating(s) assigned in 2017-18**	**Date(s) & Rating(s) assigned in 2016-17**
1.	Term Loan	Long Term	9.84* (Previously 12.55)	IVR BB+ /Stable Outlook	IVR BB+ /Stable Outlook (January 17, 2019)	--	--
2.	Fund Based Facilities	Long Term	7.00 (including proposed limit of Rs.4.00 crore)	IVR BB+ /Stable Outlook	IVR BB+ /Stable Outlook (January 17, 2019)	--	--

*Outstanding term loan amount as on January, 2020.

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Debt - Term Loan	--	--	November 2022	9.84*	IVR BB+/Stable Outlook
Long Term Fund Based Limits	--	--	--	7.00 (including proposed limit of Rs.4.00 crore)	IVR BB+/Stable Outlook

*Outstanding as of January, 2020.