



Press Release

Bhunit Engineering Private Limited

June 02, 2021

Ratings

Sl. No.	Instrument/Facility	Rating Amount (Rs. Crore)	Rating	Rating Action
1.	Long Term Debt - Term Loan	11.94	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Reaffirmed
2.	Long Term Fund Based Limits	4.90 (Previously Rs. 7.00 crore)	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Reaffirmed
	Total	16.84		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings reaffirmation continues to factor in the extensive experience of the promoters in the auto component industry along with synergy with group companies with respect to the operations. The reaffirmation further factors in the established clientele and supplier base as also continuing comfortable capital structure, debt protection parameters and operating margins in FY2020 as in the previous fiscal. The rating strengths are however tempered by modest scale of operations, high clientele concentration and exposure to volatility in raw material prices and exchange rate fluctuations. Further, the operating cycle remained stretched particularly due to elongated receivables. The company operations also remain vulnerable to intense competition amongst various auto ancillary entity to an extent.

Key Rating Sensitivities

Upward Rating Factors

- Substantial growth in scale of operations and with sustenance in profitability
- Improvement in operating cycle



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Downward Rating Factors

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

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of the promoters in the auto component industry**

BEPL promoters have a five decade long experience in the auto industry. The key promoter, Mr. Banga remains supported by an experienced team of professionals having adequate industry experience. Apart from BEPL, the promoter Victora group has also promoted Victora Auto Pvt Ltd and Victora Auto Inc. who are in the same auto component industry. The Victora group also has interests in hospitality industry.

- **Business synergy with group companies and established clientele**

BEPL derives a substantial portion of its revenues by way of sale to its group companies Victora Auto Private Limited (~17% of net sales of FY20) and Victora Automotive Inc. (~8% of net sales of FY20). The promoters Victora group has developed long lasting relationships with various OEM's and Tier I players and being a part of the group BEPL is expected to be continue to derive the associated benefits. BEPL client mix includes reputed clientele Sunbeam Auto, Knorr Bremse India, International Tractors, Escorts/Badve Engineers and Knappco Corporation who have supported the company through consistent repeat orders.

- **Reputed supplier base**

BEPL supplier mix also consists of Hindalo Industries Ltd Mukand Sumi Metal Processing Limited among others. Given the long association, the company has benefitted in terms of favorable credit terms as also periodical price revision appraisal leading to partial pass on to the customers protecting its margins to an extent.



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- **Comfortable capital structure and debt protection parameters, adequate margins**

The overall gearing ratio has remained at 0.53x as on March 31, 2020 almost in line with 0.60x as on March 31, 2019 to driven by accrual of profit to net worth and scheduled repayment of term loans. Further, TOL/ATNW has remained same at 0.89x for both the years. To arrive at the net worth, Infomerics has considered Rs.13.33 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 FY2020 marked by improvement in interest coverage ratio from 2.97x in FY2020 and Total debt to GCA 4.45x in FY2020. The operating margins have remained stable as witnessed by EBITDA margin at 12.15% in FY2020 and 12.54% in FY2019 on partial pass on of the raw material price volatility to its customers. The company as per provisional information has achieved 15.82% margins in FY2021.

Key Weaknesses

- **Modest scale of operations**

The scale of operations of the company continued to remain modest with total operating income at Rs.30.32 crore in FY2020 driven by some export orders which were transferred in the books of Victora Auto Pvt Ltd (group company) due to some pending verification of the plant of BEPL. Due to this, BEPL supplied the orders to Victora Auto Pvt Ltd (VEPL) and VEPL further made the export which fetched lower margin as compared to the direct export sales. During FY2021, the company has achieved a total operating income of Rs.40.39 crore (provisional).

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

The key raw material used by the company remains aluminium. The profitability remains vulnerable to any unfavourable movements in steel prices that cannot be entirely passed on to the customers. In FY20, aluminium used by the company stood at 51 percent of total raw material consumed. The company profitability given 30.52% of exports in FY2020 and no commensurate imports remains vulnerable to the foreign exchange fluctuations. However, the company manages the same through forward covers.



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- **Stretched operating cycle mainly on elongated receivable cycle**

The company's operating cycle has remained stretched in FY2020 mainly on the elongation in the receivable cycle. Further, with reputed customers on board, reduces the counterparty risk to an extent. The operating cycle remained at 91 days in FY2020 as compared to 107 days in FY2019. The creditor days remained at 48 days in FY2020 while average inventory period remained at 40 days. Efficient working capital cycle management will be a key monitorable, going forward.

- **High Client concentration**

Though the company has established clientele, top five clients comprise ~71 per cent of the total revenue for FY20120 indicating client concentration risk. Reduction in the same would be a key monitorable given forward.

- **Intense competition among players**

The company remains vulnerable to the competition from various auto ancillary entities. However, long association with customers and the technicalities involved for production of their products keeps competition to an extent under control.

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. 5.66 crore and Rs. 6.46 crore in FY2022 and FY2023 vis-à-vis its debt repayment obligations aggregating Rs. 2.90 crore and Rs. 2.71 crore in the same period. The promoters have financially supported the operation of the business through unsecured loans and the same is expected going forward. The free cash balance as on FY2020 remained at Rs. 0.15 crore.



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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 ISO 9001:2008 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 overseen 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.

Financials (Standalone):

For the year ended* As on	31-03-2019	31-03-2020
Rs.crore	Audited	Audited
Total Operating Income	36.66	30.32
EBITDA	4.60	3.68
PAT	0.53	0.48
Total Debt	14.67	13.31
Tangible Net worth	8.47	8.81
EBITDA Margin (%)	12.54	12.15
PAT Margin (%)	1.45	1.57
Overall Gearing Ratio (x)	0.68	0.60

Status of non-cooperation with previous CRA: Nil

Any other information: Nil



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Rating History for last three years:

(Rs. crore)

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	11.94 (Previously Rs. 9.84 crore)	IVR BB+ /Stable Outlook	IVR BB+ /Stable Outlook (March 03, 2020)	IVR BB+ /Stable Outlook (January 17, 2019)	--
2.	Fund Based Facilities	Long Term	4.90 (Previously Rs. 7.00 crore)	IVR BB+ /Stable Outlook	IVR BB+ /Stable Outlook (March 03, 2020)	IVR BB+ /Stable Outlook (January 17, 2019)	--

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:



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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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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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	11.84	IVR BB+/Stable Outlook
Long Term Fund Based Limits	--	--	--	4.90	IVR BB+/Stable Outlook

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Lender-Bhunit-Engineering-02-jun-21-.pdf>



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