Black Diamond Motors Private Limited

August 04, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	70.08	IVR BBB; Positive (IVR Triple B with Positive outlook)	Reaffirmed with revision in outlook from stable to positive	Simple
Total	**70.08 (Rupees seventy crore and eight lakhs only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Black Diamond Motors Private Limited (BDMPL) considers improvement in its operating performance in FY23 (Provisional) marked by improvement in its scale of operation and profitability. Further, the rating continues to derive strength from its experienced promoters, geographically diversified revenue profile, comfortable financial risk profile marked by comfortable capital structure with satisfactory debt protection metrics and prudent working capital management. However, these rating strengths continue to remain constrained due to susceptibility of its profitability to volatility in its raw material prices, exposure to intense competition in automotive component industry which exert pressure on profit margins and exposure to cyclicality inherent in automobile industry. The rating also considers exposure of the company to ongoing project risk. Infomerics believes that BDMPL will maintain a 'Positive' outlook over the medium term on account of its established business profile driven by its strong customer profile leading to improvement in financial performance in the near term.

Key Rating Sensitivities:

Upward Factors

- Improvement of operating income and profitability of the company on a sustained basis leading to improvement in gross cash accruals

- Improvement in the capital structure with improvement in overall gearing and improvement in debt protection metrics

Downward Factors

- Decline in operating income and/or profitability impacting the debt coverage indicators leading to moderation of interest coverage ratio
- Moderation in the capital structure with moderation in the overall gearing ratio to over 1x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The promoters have more than two decades of experience in the mining construction, hospitality, manufacturing business and their long-standing experience and reputation in the industry help in maintaining strong customer relationships.

Geographically diversified business profile

The company has a well-diversified geographical presence in the country, with its major brand pull in North & Central India.

Significant improvement in operating income and profitability

The total revenue has increased by ~75% y-o-y from Rs. 179.38 crore in FY22 to Rs. 314.16 crore in FY23 (provisional) driven by an increase in sales realisation as well as sales volume in FY23. The increase in sales realisation is driven by higher increase in steel prices resulting in increase in selling price of finished products coupled with increase in demand of auto ancillary product. The growth in business operation is supported by experienced promoters and their business insights. In Q1FY24 BDMPL has already achieved ~Rs.125 crore and by the end of this fiscal expecting to achieve more than Rs. 400 crores. The profit levels have witnessed a steady improvement in FY23 provisional. The profit margins remain comfortable in FY23 provisional with EBITDA margin at 8.30% (6.66% in FY22) and PAT margin at 5.49% (3.60% in FY22). The rise in profitability is backed by rise in sales realisation and higher absorption of fixed overheads, attributable to rise in capacity utilisation in FY23.

Comfortable financial risk profile

The total indebtedness of the company marked by TOL/TNW has moderated and stands at 1.64x as on March 31, 2023 (provisional) as against 0.78x as on March 31, 2022 due to significant rise in debt levels due to increase in term loan to finance its capex. Driven by rise in debt level the overall gearing has also deteriorated though remains comfortable at 0.50x as on March 31, 2023 (provisional) (0.04x as on March 31, 2022). The debt protection metrices marked by interest coverage has improved from 5.89x in FY22 to 17.16x in FY23 (Provisional) backed by rise in absolute EBITDA along with dip in finance charges due to low working capital limit utilisation. The total debt/GCA though moderated with rise in debt level remains comfortable at 1.61 years as on March 3, 2023 (0.21 years on March 31, 2022). However, despite the moderation, the leverage ratios are expected to remain satisfactory going forward.

Improvement in working capital management

The company has prudently managed its working capital requirements and reduced its working capital cycle from 49 days in FY22 to 19 days in FY23 due to decline in inventory days from 67 days to 38 days. Moreover, the average working capital utilisation remains low at ~31% indicating adequate liquidity cushion.

Key Rating Weaknesses

Susceptibility of profitability to fluctuation in raw material prices

Steel, tyre is the primary raw material for the company. The prices of which are volatile in nature. Hence any adverse movement in raw material prices may impact the profitability of the company to an extent.

Exposure to intense competition

The company's products are up against dealers from other major brands, as well as the unorganised used automobile market. Original equipment manufacturers also urge more dealerships to expand their market penetration and sales, increasing dealer competition. Demand for automobiles is also cyclical and depends upon multiple factors, such as economic growth, interest rates, and fuel prices.

Timely completion of Ongoing Capex

The company is establishing a new manufacturing unit at Neemrana, Rajasthan to manufacture Tip Trailers, Tippers, Box Trailers and other customized commercial at a total estimated cost of around Rs. 64.00 crore, to be funded at a debt of Rs.40.00 crore and remaining through promoters contribution and internal accruals. Earlier the commercial production was expected to start by June 2023 but got delayed due to some changes in infrastructural design and now the project is expected to be completed by September 2023. Change in COD is also approved by bank. Till June 30, 2023, the company has incurred total cost of Rs. 54.39 crore, of which Rs. 35.17 crore has been funded via bank loan, Rs. 8.47 crore funded with fresh equity & the remaining Rs. 10.75 crore through internal accruals. The project is still in construction stage. Financial closure for the entire loan has achieved, however entire disbursement has not been taken.

Cyclical nature of the auto industry

The auto sector is naturally exposed to economic cycles and borrowing rates and fuel prices are extremely volatile. A rise in interest rates raises the expenses of purchasing, causing the purchase to be postponed. Fuel prices have a direct impact on vehicle operating costs, and any increase would result in lower consumer disposable income, influencing buying decisions. As a result, the company is exposed to severe risks linked with the automobile industry's dynamics.

Analytical Approach: Standalone

Applicable Criteria:

Criteria for assigning Rating Outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate in the near to medium term driven by expected sufficient cushion in its accruals in the range of ~Rs.25.87-63.51 crore as compared to debt repayment obligation in the range of ~Rs.6.63-7.26 crore during FY24 - FY26. Further, the company is having sufficient gearing headroom on the back of its comfortable capital structure. Moreover, the average working capital limit utilization of the company also remain satisfactory at ~31% in the 12 months ended June 2023, thereby providing a sufficient liquidity cushion.

About the Company

Black Diamond Motors Private Limited was incorporated in September 2005. It is involved in manufacturing of tip trailers. They are also producer of products such as tippers, rocky body, box trailers, semi low bed trailers, flat bed trailers, skeletal trailers, and all kind of customised trailers for various applications. Its manufacturing unit is in Bilaspur, Chhattisgarh with annual production capacity of 2000 units.

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	179.38	314.16
EBITDA	11.94	26.09
PAT	6.46	17.28
Total Debt	1.70	30.96
Tangible Net worth	42.77	62.05
EBITDA Margin (%)	6.66	8.30
PAT Margin (%)	3.60	5.49
Overall Gearing Ratio (x)	0.04	0.50

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23		Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
					Dec 14, 2022	Jun 08, 2022		
1.	Term Loan	Long Term	40.00	IVR BBB/ Positive	IVR BBB/ Stable	-	-	-
2.	GECL	Long Term	4.94	IVR BBB/ Positive	IVR BBB/ Stable	-	-	-
3.	SME Car Loan	Long Term	1.14	IVR BBB/ Positive	IVR BBB/	-	-	-

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23		Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
					Dec 14, 2022	Jun 08, 2022		
					Stable			
4.	Cash Credit	Long Term	23.75	IVR BBB/ Positive	IVR BBB/ Stable	IVR BBB-/ Stable	-	-
5.	Proposed Cash Credit	Long Term	0.25	IVR BBB/ Positive	IVR BBB/ Stable	IVR BBB-/ Stable	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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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 Bank Facilities – Term Loan	-	-	May 2032	40.00	IVR BBB/ Positive
Long Term Bank Facilities - GECL	-	-	May 2024	1.94	IVR BBB/ Positive
Long Term Bank Facilities – GECL Ext.	-	-	Oct 2026	3.00	IVR BBB/ Positive
Long Term Bank Facilities – SME car Loan	-	-	July 2025	1.14	IVR BBB/ Positive
Long Term Bank Facilities – Cash Credit	-	-	-	23.75	IVR BBB/ Positive
Long Term Bank Facilities – Proposed Cash Credit	-	-	-	0.25	IVR BBB/ Positive

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-bdmpl-aug23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.