

**Press Release**

**Bemco Sleepers Private Limited**

**October 18, 2019**

**Rating**

<b>Sl. No.</b>	<b>Instrument/Facility</b>	<b>Amount (Rs. Crores)</b>	<b>Rating Assigned</b>
1.	Long Term Facility – Fund Based – Cash Credit	12.50	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)
2.	Long Term Facility – Fund Based – Term Loan	1.61	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)
3.	Short Term Facility - Non-Fund Based – Bank Guarantee	5.00	IVR A4+ (IVR A Four Plus)
4.	Short Term Facility – Non Fund Based – Letter of Credit (Proposed)	1.11	IVR A4+ (IVR A Four Plus)
	<b>Total</b>	<b>20.22</b>	

**Details of Facilities are in Annexure I**

**Detailed Rationale**

The aforesaid rating derives comfort from experienced promoters, diversified product portfolio, improving capacity utilization, healthy growth in operation, comfortable gearing and debt coverage indicators and established relationship with clients and suppliers. However, the rating is constrained by moderate profitability margins, exposure to foreign exchange fluctuations and high competition and cyclical nature in the steel industry. Input price volatility, scale of operation and profitability and foreign exchange volatility are the key rating sensitivities.

**Detailed Description of the Key Rating Drivers**

**Key Rating Strengths**

**Experienced management and long track record of operation**

The promoters have more than three decades of experience in the manufacturing of concrete sleepers for Indian Railways. The main promoter Mr Padia who took over the company from the erstwhile promoters has an extensive experience of 51 years in the field. The other directors

named Ajay Paida has over 20 years of experience and Sambhu Nath Padia has over 40 years of experience in the field.

### **Association with reputed clients like Indian Railways and other firms**

The company's clientele largely includes Indian Railways and a few private players. The company enjoys long standing relationships with Indian Railways.. The increase in sales price per unit for its contracts is a positive aspect as it is expected to improve the operating margins.

### **Improved financial performance with healthy order book position providing revenue visibility**

The company has been able to grow operating income at a CAGR of 21% y-o-y over the past 3 years. Net revenues increased by 36.5% y-o-y in FY 19 (provisional) as compared with 29.8% in the corresponding period last year. EBITDA and PAT increased from previous year even though EBITDA Margin has shown a decline to 11.72% in FY 19 (provisional) from 12.56% in the previous year. Although interest coverage has gone down from 2.80x in FY18 to 2.43x in FY 19 (provisional) it remains comfortable. The order book of the company remains to be healthy supported by two large orders in the current year totalling Rs.174.56 crore from the Indian Railways. The contract is to be completed in 2 years, thus providing good revenue visibility in the medium term.

### **Higher operating efficiency and production levels**

The operating efficiency has seen an improvement in FY 19 (provisional) with better capacity utilization of its Mono Block Sleepers production unit, with an increase of 65% in the production of Mono Block Sleepers. For Turnout sleepers there has been more than double increase in production and installed capacity in FY 19 (provisional) compared with previous year even though capacity utilization remained same.

### **Adequate liquidity and improved leverage**

The company's debt level improved as seen from the decline in overall gearing and Total debt to GCA levels. The overall gearing has come down to 1.69x from 1.96x. GCA has increased to Rs.4.11 crore from Rs.3.02 crore and Total Debt to GCA has been reduced to 5.74x in FY 19 (provisional) from 7.29x in FY18. The short term loans and advances that the firm has given to

various parties increased by a wide margin thereby improving current ratio. The working capital facility utilization was moderate at 67% for the 12 months' period ended July 31, 2019.

## **Key Rating Weaknesses**

### **Working capital intensive nature of operations**

The company is currently facing high inventory days and any delay in collecting the receivables would adversely affect the cash conversion cycle. Since the orders of the company are tender based in nature and mainly from Indian Railways there can be some delay in getting approvals thereby realising revenues promptly.

### **Client concentration in revenue profile**

Almost 97 per cent of total sales for FY 19 (provisional) comes from Indian Railways implying high level of client concentration. As Indian Railways is a government run institution and have been a key revenue driver for the company, any delay in procuring contracts in the future may adversely affect its revenues going ahead.

### **Exposure to raw material price risk and lowest bidder based bidding system**

The company receives the orders from the Indian Railways where its profitability remains exposed to major fluctuation in raw material prices which the company may not be able to pass on entirely. In addition, BSL derives a major portion of its revenues from the Indian Railways, wherein the orders are allotted based on the lowest bidder bidding system, resulting in aggressive bidding by the players which limits the profitability of all players to an extent.

## **Analytical Approach & Applicable Criteria**

Standalone

Financial Ratios & Interpretation ( Non-Financial Sector)

### **Liquidity**

The liquidity position remains adequate with sufficient cushion available wherein the company's average utilization of working capital limits is at 67% during the 12-month period ended July 2019. It is expected that the unutilized credit line is adequate to meet its working capital needs over the next one year. With higher accruals and steady debt level it is expected that the company would be able to meet its working capital requirements in future.

**About the Company**

Bemco Sleepers (BSL) was set up as a proprietorship firm in 1980. It was reconstituted as a private limited company in 1983 and thereafter as a public limited company in 1995. The firm which was incorporated in 1983 at Mumbai is engaged in manufacturing of pre stressed concrete sleepers for Indian Railways and some other private clients. The company operates with two manufacturing units; one each at Nandgaon(Maharashtra) and Khandwa (Madhya Pradesh). BSL currently manufactures 2.94 lakh units of Monoblock sleepers and 0.54 lakh units of Turnout sleepers per year with total aggregate installed capacity of 3.6 lakh units of Monoblock sleepers and 1.65 lakh units of Turnout sleepers.

**Financials**

**(Rs. crore)**

<b>For the year ended/ As On</b>	<b>31-03-2018</b>	<b>31-03-2019</b>
	<b>(Audited)</b>	<b>(Provisional)</b>
Total Operating Income	49.75	67.91
EBITDA	6.25	7.96
PAT	2.12	3.10
Total Debt	22.02	23.58
Tangible Networkth	11.23	13.98
<b><u>Ratios</u></b>		
EBITDA Margin (%)	12.56	11.72
PAT Margin (%)	4.27	4.57
Overall Gearing Ratio (x)	1.96	1.69

Note: Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA: N.A**

**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.	Fund Based Limits – CC	Long Term	12.50	IVR BB+/Stable Outlook (IVR Double B Plus	--	--	--

				with Stable Outlook)			
2.	Term Loan	Long Term	1.61	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	--	--	--
3.	Non Fund Based Limits – Bank Guarantee	Short Term	5.00	IVR A4+(IVR A Four Plus)	--	--	--
4.	Non Fund Based Limits – Letter of Credit (Proposed)	Short Term	1.11	IVR A4+(IVR A Four Plus)			

**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](http://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.

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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 Fund Based Limits – Cash Credit	--	--	--	12.50	IVR BB+/Stable Outlook( IVR Double B Plus with Stable Outlook)
Long Term Debt - Term Loan	--	--	August 2024	1.61	IVR BB+/Stable Outlook( IVR Double B Plus with Stable Outlook)
Short Term Non-Fund Based Limits – Bank Guarantee	--	--	--	5.00	IVR A4+(IVR A Four Plus)
Short Term Non-Fund Based Limits – Letter of Credit (Proposed)	--	--	--	1.11	IVR A4+(IVR A Four Plus)