Press Release

Bhunit Engineering Company Private Limited

January 17, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Long Term Debt - Term Loan	12.55	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)
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)
	Total	**19.55**	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from experienced promoters and management, established clientele and relationship, diversified product portfolio, technological abilities, growth in revenue and improved profitability, moderate capital structure and debt protection parameters. The rating however is constrained by 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. Scale of operation, technology upgradation, leverage and working capital management are the key rating sensitivities.

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.

Established clientele and relationship

The company has developed long lasting relationships with OEM's and Tier I players. Clients of the company include Sunbeam Auto, Knorr Bremse India, International Tractors, Escorts/Badve Engineers and Knappco Corporation. This is a strength for the company considering the B2B nature of the business and its diversified client base.

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 a single/few products.

Technological abilities

The company is capable of manufacturing aluminium casting components using the latest available technology. Its facilities house skelner furnaces, gravity die casting machines and CNC machines. It also has an in house tool designing facility wherein dies are designed using CAD/CAM software. The company is an ISO 9001:2000 certified organisation.

Growth in revenue and improved profitability

Post takeover by the group, the company has achieved a growth of ~94% in revenues – FY18. The company has leveraged the knowhow and positioning of the group in the auto and auto components business. Over the past, the company has achieved improvement in terms of operational performance.

Moderate capital structure and debt protection parameters

The networth of the company has improved on account of infusion of capital by the new promoters (Banga family) in FY17 and retaining the profits earned in FY18. Debt has increased in the recent past primarily as a result of the capex undertaken by the company to enhance and modernise the existing machinery base. In FY18, Long term debt to GCA and Long term debt to EBITDA were comfortable at 5.88x (FY17: 16.09x) and 3.62x (FY17: 3.78 x) respectively. Interest coverage ratio was also comfortable at 2.47x as on 31 March 2018.

Key Rating Weakness

Modest scale of operation

The company's operations are modest in scale. Operating revenue for FY18 stood at Rs.38.4 crore. EBITDA margin was around 10% in FY18. PAT margins for FY18 stood at 0.36%.

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. 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 and increased WC requirements leading to liquidity stretch

The company has elongated inventory days driven by high raw material holding period. Debtor days and creditor days during the same period stood at 64 days and 40 days respectively. With the new promoters coming in, operating cycle has dome down substantially from around 180 days to about 100 days, though it continues to be high. Stretched liquidity position is further reflected by way of high average working capital utilisation during the last 12 months (~90%).

Clientele concentration; substantial sales to group companies

Top seven clients comprise 83% of the total revenue for FY 2018 indicating concentration risk. Also, the company derives a substantial portion of its revenues by way of sale to its group companies – Victora Auto Private Limited (~12% of net sales) and Victora Automotive Inc. (~16% of net sales) - it carries out machining job work for these companies. This leads to the performance of the company being contingent to the performance of group companies.

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. Additionally other South East Asian countries are rapidly coming up in terms of technology, value engineering and price competitiveness – further increasing competition for the firm and the industry at large.

Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Manufacturing companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

The company is earning a modest level GCA and the same is expected to increase gradually with increase in scale of operation and level of margin, while the long term debt is likely to reduce indicating lower debt servicing obligations. Promoters have financially supported the operation of the business through unsecured loans as and when required and the same is expected going forward. All these factors indicate a moderate degree of liquidity support to the company in meeting its near term debt obligations.

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	31-03-2017 (Audited)	31-03-2018 (Audited)
Total Operating Income	19.8	38.4
EBITDA	1.2	4.0
PAT	-1.3	0.1
Total Debt	28.4	31.3
Tangible Networth	7.4	7.8
EBITDA Margin (%)	6.08	10.48
PAT Margin (%)	-6.52	0.36
Overall Gearing Ratio (x)	1.87	2.29

* 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 2018-19)			Rating History for the past 3 years		
		Type	**Amount outstanding (Rs. crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2017-18**	**Date(s) & Rating(s) assigned in 2016-17**	**Date(s) & Rating(s) assigned in 2015-16**
1.	Term Loan	Long Term	12.55	IVR BB+ /Stable Outlook	--	--	--
2.	Fund Based Facilities	Long Term	7.00 (including proposed limit of Rs.4.00 crore)	IVR BB+ /Stable Outlook	--	--	--

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	12.55	IVR BB+/Stable Outlook
Long Term Fund Based Limits	--	--	--	7.00 (including proposed limit of Rs.4.00 crore)	IVR BB+/Stable Outlook