

July 31, 2020

Beardsell Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Medium- term Fund-based – Public Deposits	5.00	5.00	MB+(Stable); Reaffirmed
Total	5.00	5.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmed rating favourably factors in the extensive experience of the promoters and the management of Beardsell Limited (BSL or the company) of over two decades in the expanded polystyrene packaging and engineering industry. The long-term association of the company with some of the customers resulting in repeated orders and its diversified customer profile as witnessed by low contribution of top 5 customers being in the range of 7-12% in last four fiscals.

The rating is however, constrained by the company's financial profile characterised by modest scale of operations with significant decline of 17% in revenues in FY2020 and modest profitability. Also, coverage ratios have remained weak with interest coverage ratio and DSCR of 2.07 times and 0.61 times respectively as on March 31, 2020. Given the high debt repayments in FY2021, the liquidity profile has also remained stretched emanating from elongated receivables and modest cash accruals. Also, the increase in working capital requirements have been funded by stretching the creditors, resulting in a moderate ratio of total outside liabilities to tangible net worth (TOL/TNW) of 2.11 times as on March 31, 2020. The rating also factors in the susceptibility of BSL's profitability to fluctuations in raw material prices in both the prefabricated and EPS divisions. Further, given that sales are linked to the demand and cyclicity of end-user industries (in this case, consumer durables), any slowdown in demand may adversely impact revenue growth and profitability. Hence, impact of covid-19 pandemic remains crucial in FY2021.

The stable outlook on the medium-term rating considers that the company will continue to benefit from the extensive experience of its promoters and the management in the expanded polystyrene and engineering industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and the management in the EPS segment – BSL started its operations in 1936 under the guidance of the Late P Punnaiah. Its operations are presently headed by the executive director, Mr. Amrith Anumolu, who has been involved in the engineering industry for over two decades. The company's established track record of operations as well as the extensive experience of its management has enabled it to establish itself in the expanded polystyrene and engineering industry.

Diversified client base with repeat orders from a few clients – BSL entirely caters to the domestic market. The company caters to pharma companies, water purifier manufacturers and Government departments, among others. The customer

base has remained diversified over the past three years with the top five customers driving ~7% of total sales in FY2020. Long-term association with some of the customers have also led to repeat business.

Credit challenges

Financial profile characterised by decline in revenues, modest profitability and weak coverage indicators – On a consolidated level, BSL's turnover has declined by ~17% in FY2020 as against FY2019 owing to decrease in realisations. Although the operating profit margin has increased from 5.06% in FY2019 to 8.19% in FY2020, the operations have been impacted in FY2021 due to the outbreak of COVID-19 and government mandated lockdown announced in March 2020. Consequently, the revenues and profitability are expected to weaken in Q1FY2020. High repayments coupled with moderate profitability resulted in weak Debt Service Coverage Ratio (DSCR) of 0.61 times (P.Y. 1.20 times) as on March 31, 2020.

Stretched liquidity position leading to high utilisation of limits – Given the high receivables and modest cash accruals, the liquidity remains stretched as witnessed by the near to full utilisation of sanctioned fund-based working capital limits at 83% for 15-month period ending June 2020. Further, high creditor levels have led to high TOL/TNW of 2.11 times (P.Y. 2.17 times) as on March 31, 2020 on account of high creditor funding in the business to meet its working capital requirements. High repayments in the near to medium term are further expected to exacerbate the liquidity position. However, ICRA notes that the company is in the process of raising Rs. 7.00 crore through rights issue and the proceeds will be utilised to trim down the debt levels. Successful completion of the same will remain critical from credit perspective.

Exposed to raw material fluctuation risk as the main raw material, i.e., expandable polystyrene is a crude oil derivative - The major raw materials required are expanded polystyrene (EPS) resins, pre-painted galvalume coils, galvanized iron wire, and other electrical accessories. EPS resins alone account for ~25% of the total raw material requirement. BSL's profitability remains exposed to raw material price volatility as the key input for EPS products, polystyrene, is linked to crude oil, which has remained hugely volatile in the past few years. Consequently, decrease in raw material consumption cost led to an improvement in OPM to 8.91% in FY2020 from 5.06% in FY2019. However, sustained improvement in OPM is subject to volatility in raw material prices and remains uncertain.

Linked to demand and cyclicity of end-user industries, i.e., consumer durables; any slowdown in demand could adversely impact revenue growth and profitability - BSL has two major business segments namely, the packaging/moulded products and prefabricated panel products, with the former driving ~45% of total revenues in FY2020. BSL supplies moulded thermocole and EPS sheets used as packaging material for consumer durable products. Hence, its operations remain exposed to the cyclical demand from end-user industries. Also, impact of covid-19 pandemic on the demand of products remain critical in FY2021.

Liquidity position: Stretched

On consolidated basis, BSL has term loans of Rs. 6.79 crore on its books as on March 31, 2020 with repayment of Rs 1.45 crore, Rs. 2.92 crore and Rs. 1.85 crore in FY2021, FY2022 and FY2023 respectively. The liquidity position of the company remains stretched due to high working capital intensity emanating from its stretched receivables, elevated inventory levels and modest cash accruals. Consequently, the working capital utilisation has remained near to high at 83% during April 2019 to June 2020. Also, with capital expenditure incurred, free cash flows have turned negative in FY2020. However, the company has no major capital expenditure planned in the near term.

ICRA notes that the company has partly repaid its unsecured loan in Q1 FY2021 and had unencumbered/free cash and bank balance (including liquid investments) of Rs. 1.62 crore as on March 31, 2020, which provides some comfort. The company's board of directors have also approved the proposal of issue of rights shares in May 2020, subscription of which will also positively impact the liquidity position in future. The company has availed the moratorium facility and hence, repayments of term loan and interest has been delayed by 6 months which provides some comfort as well to liquidity in FY2021.

Rating sensitivities

Positive triggers – The rating can be upgraded if there is a substantial improvement in revenue and profitability with better working capital management, as well as improvement in liquidity position of the company.

Negative triggers – The rating can be downgraded if there is a lower than expected cash accruals or any increase in borrowings level as well as any stretch in working capital cycle weakening the liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Beardsell Limited. As on March 31, 2020, the company had one subsidiary and one controlled entity, which are listed out in Annexure-2.

About the company:

Beardsell Limited was incorporated in 1936 by the Late P Punnaiah. It manufactures insulation products such as prefabricated products as well as packaging and moulded products. The prefabricated segment comprises panel products, which find applications in sectors such as cold storages, affordable housing, food processing plants, pharma, roofing applications, and so on. The company's packaging and moulded products segment manufactures panels (expanded polystyrene sheets and rigid polyurethane foam slabs) primarily used for composite packaging, anti-static packaging, building insulation, etc, that find application in the consumer durables industry. Besides, BSL trades in industrial motors in the domestic market. It is a channel partner for Siemen's electric motors in Tamil Nadu. The company has four manufacturing units, with one each in Mumbai, Chennai, Bangalore and Karad (Maharashtra). Its registered office is in Chennai.

On a consolidated level, BSL reported a net profit of Rs. 0.82 crore on an OI of Rs. 161.72 crore in FY2020, as compared to net loss of Rs. 0.75 crore on an OI of Rs. 193.88 crore in the previous year.

Key financial indicators (audited) - Consolidated

	FY2018	FY2019	FY2020
Operating Income (Rs. crore)	167.85	193.88	161.72
PAT (Rs. crore)	0.38	-0.75	0.82
OPBDIT/OI (%)	3.91%	5.06%	8.19%
RoCE (%)	7.35%	6.62%	9.67%
Total Outside Liabilities/Tangible Net Worth (times)	2.04	2.17	2.11
Total Debt/OPBDIT (times)	6.24	4.16	2.85
Interest Coverage (times)	1.15	1.65	2.07
DSCR (times)	1.18	1.20	0.61

Source: BSL

Status of non-cooperation with previous CRA: FB+/Stable (ISSUER NOT COOPERATING; Placed on 'Notice of Withdrawal'); PR dated April 27, 2020

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2017
					31-Jul-2020	04-Apr-2019	-	-
1	Public Deposits	Medium-Term	5.00	-	MB+ (Stable)	MB+ (Stable)	-	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Public Deposits	NA	NA	NA	5.00	MB+ (Stable)

Source: BSL

Annexure-2: List of entities considered for consolidated analysis –

Company Name	Ownership	Consolidation Approach
Beardsell limited	100%	Full Consolidation
Sarovar Insulation Pvt. Ltd.	100%	Full Consolidation
Saideep Polytherm	100%	Full Consolidation

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