

**Rating Rationale**

**17 June 2020**

**BPL LIMITED**

**Brickwork Ratings assigns ratings for the bank loan facilities of Rs.28.00 crs of BPL Ltd. ('BPL' or the 'Company')**

**Particulars:**

<b>Facility</b>	<b>Amount (Rs Crs)</b>	<b>Tenure</b>	<b>Ratings</b>
<b>Fund based:</b>			
SOD-RE	10.00	Long term	<b>BWR B/Stable</b>
<b>Non Fund based:</b>			
Letter of Credit (FLC/ILC)	18.00	Short term	<b>BWR A4</b>
<b>Total</b>	<b>28.00</b>	<b>Rupees Twenty Eight crores only</b>	

Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings; Details of Bank facilities are provided in Annexure-I

**Rating Action/Outlook**

The ratings benefit from the promoters' experience of more than three decades in the consumer durables industry, established track record and brand and the recent modernisation of its Printed Circuit Board manufacturing facility. The ratings, are constrained by the moderate scale of operations, deterioration in the credit risk profile with less than average credit metrics, stretched liquidity and customer concentration risks with majority of FY19 sales to e-commerce sites like Amazon/ Flipkart. The ratings also factor in the continuing delay in redemption of non promoter holding of preference shares of ~Rs.54 cr which have fallen due in Aug 2019, impact of COVID-19 on the operations of the company, the competitive landscape, exposure to exchange fluctuation risks on account of imports from China, Korea etc. BWR notes the erosion in Tangible net worth after adjusting for investments in group companies and advances to related parties. BWR also notes the outstanding contingent liabilities of around ~Rs.76 cr including statutory disputes, litigations and corporate guarantee.

BWR takes cognizance of the COVID-19 regulatory package and related guidelines issued by the Reserve Bank of India (RBI) to mitigate the burden of debt servicing due to disruptions on account of the COVID-19 pandemic and to ensure the continuity of viable businesses. BWR also takes note of the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRA/DT/ CIR/ P/ 2020/ 53 dated 30 March 2020 in this regard. BWR notes that BPL has applied for relief under

the aforementioned package and has deferred its scheduled payments to the banker in the interim. The benefits of the package entailing deferment of interest have been passed on to the company by the bankers. BWR would not be considering such non-payments as default for the time being. BWR will continue to monitor the developments and analyse the impact, if any, on BPL's credit profile.

BWR believes BPL's business risk profile will be maintained over the medium term. The outlook may be revised to 'Negative' if the company reports significantly lower than expected performance resulting in further deterioration of coverage indicators, delay in recovering advances from the related parties and further delays in redemption of the preference shares of ~Rs 54 crs and weakening of liquidity position. Further, any major debt-funded expenditure resulting in deterioration in capital structure and debt coverage indicators and/or a sharp reversal in industry operating conditions and/or delay or non realisation of receivables, thereby weakening the credit risk profile, may exert a downward pressure on the ratings.

### **Key rating drivers**

#### **Credit Strengths:**

- **Experienced promoters** - The Company and the promoters have a long track record of around three decades and extensive experience in the consumer durables industry, which has helped in understanding the business cycles, establishing relationships with suppliers and customers, obtaining repeat orders and addressing associated inherent risks.
- **Reputed clientele** - The company's consumer durables business segment constitutes ~82% of the topline for FY19. Nearly 60% of the sales from the consumer durables segment is derived from sales to e-commerce sites like Amazon and Flipkart which offer low counterparty risks. Furthermore, the company has entered into an agreement to license its brand to a leading consumer durables retailer which establishes the management's ability in leveraging the 'BPL' brand and establishing arrangements with reputed players in the industry.
- **Established infrastructure for PCB Manufacturing** - The company has its PCB manufacturing facility at Doddaballapur, Bangalore rural, with an annual installed capacity of 2.88 lac sqm. The segment contributes 12% to the top line which is expected to increase to ~30% in the coming years. During FY19, the company has undertaken a modernisation of the facilities through internal accruals. The company has added new customers like Havells, Crompton Greaves during FY20 which is likely to support the envisaged increased sales from manufacturing of PCBs.

## Credit Concerns

- **Moderate scale of operations and below average financial risk profile** - The company continues to have a moderate scale of operations vis-a-vis the competition from the international brands. The credit risk profile is below average reflected by moderate operating revenue of Rs.140.28 Crs during FY19 against Rs.125.24 Crs of FY18. EBITDA was Rs. 3.05 cr in FY19 as against Rs.10.20 crs in FY18. PAT declined to Rs.0.93 Cr in FY19 from Rs.7.35 Cr of FY18. Tangible net worth (excluding fair value of equity investment in gp concern) was Rs.130.94 crore as on 31 Mar 2019. Total Debt/Tangible Net Worth (Total Debt/ TNW) was 0.07 times and Total Outside Liabilities/Tangible Net Worth (TOL/TNW) was 1.54 times as on 31 Mar 2019. However, the company has considerable advances/investments in related party/ group companies to the tune of ~Rs. 233 crs leading to erosion of its TNW. Debt servicing capabilities were moderate reflected by DSCR and ISCR of 1.75 times (PY 3.58 times) and 1.65 times (PY 4.72 times) respectively as on 31 Mar 2019. However, as per the 9M FY20 unaudited financials, the company's performance has deteriorated on account of subdued market conditions. The company achieved sales of ~Rs.75 cr and reported loss with EBITDA of Rs.(9.63) crs and net loss of Rs.8.92 crs.
- **Competitive industry & exposure to foreign exchange fluctuations risk:** Although the Company has a long track record of over 4 decades, with the entry of several large players over the past few years, there has been significant price competition, which has adversely affected the operating profitability. It is exposed to competition and is susceptible to associated risks. Further, the company had imports of ~88% of its total purchases as on 31 Mar 2019. Presently, the company has increased sourcing from domestic suppliers to mitigate the risks to some extent.
- **Impact of COVID-19:** The company's operations were completely shut during initial stages of lockdown and it started operating with 10% of manpower in the subsequent phases of lockdown. The factory commenced operations for single shift in line with extant guidelines with 50% manpower on 18 May 2020. The disruption in production and supply chain resulted in cash flow mismatches and the company had to incur losses on account of fixed costs. The company's operating performance in fiscal 2021, is likely to be adversely impacted by the COVID-19 induced curtailment measures. Measures taken by various state governments involve temporary closure of non-critical establishments, or inter-state transportation, along with advisory against travel and visiting areas of mass gatherings. These measures are likely to impact BPL's business risk profile, given the disruptions in supply chains, and restricted discretionary spending.

- **Delay in redemption of Preference Shares of Rs.54.39 crores:** During FY2006, the company underwent debt restructuring through then available CDR scheme and as part of the approved package, Non- Convertible, Non-Cumulative 0.001% Preference Shares of Rs. 100/- each aggregating to Rs.169.59 crores were issued to various lenders. The promoters have been able to buy back preference shares from different lenders to the tune of Rs.115.19 cr out of the total amount of Rs.169.59 cr. However, preference shares amounting to Rs.54.39 cr (held by OBC, Canara Bank, HDFC Limited, Export Import Bank Ltd, CBI) fell due for redemption in Aug 19 and are yet to be redeemed. The company has informed that the preference shares were issued under the CDR scheme where debt was converted to equity and as such there is no separate Shareholders Agreement. Such delay in redemption/ buy back is contingent on liquidation from non-core investments/assets/ recoveries from advances to group companies as the same is segregated from operational cash flow by the company. The ability of the company to monetise its non core assets and recover its advances to the group companies is a key rating sensitivity.

### **Analytical approach and Applicable Rating Criteria**

BWR has adopted a Standalone approach while arriving at its ratings and applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale). The company does not have any subsidiaries.

### **Rating sensitivities:**

Going forward, the ability of the Company to increase its revenue and profitability, effectively manage impact on business operations due to the COVID19 pandemic, monetise its non core assets and recover its advances to the group companies are key monitorables. BPL has outstanding contingent liabilities amounting to ~Rs.76 crores as on 31 Mar 2019 on account of disputed statutory liabilities and corporate guarantee offered to one of the group companies. Any crystallization of the above contingent liabilities and the impact of the same on the financial risk profile of the company, if any, would also be a key rating sensitivity.

**Positive:** Given the ongoing weakness in the macro-economic environment and the impact on the sector, a rating upgrade in the near term remains unlikely.

## Negative

- Delay in recovery of advances made to group companies
- Continued delay in redemption of the preference shares of ~Rs.54 cr
- Deterioration in key credit metrics on account of weaker than expected business performance and sustained pressure on net margins.
- Prolonged impact of Covid on the revenues and cash flows leading to material deterioration in its financial risk profile and liquidity

**Liquidity - Stretched:** The company's liquidity position is stretched as reflected in utilisation of working capital limits of ~100% during the last two months and average utilisation of around 80-85% during FY19. Though EBITDA at Rs.3.05 cr for FY19 was sufficient to cover the interest and finance charges of Rs.1.84 cr for FY19, however, the company envisages negative EBITDA and Net cash accruals for FY20 on account of slump in demand. Cash and cash equivalents at Rs.3.45 Crs as on 31 Mar 2019 is low (PY Rs.12.09 crs). Current ratio continues to remain below unity on account of considering the Non- Convertible, Non-Cumulative 0.001% Preference Shares as a current liability. The company does not have any long term loans. BWR notes that the company has been availed benefits under RBI's COVID-19 relief package. Also, the company has applied for the adhoc credit line from the banker. Such measures are expected to provide short term liquidity support to the company.

## About the Company

BPL Limited was incorporated in 1963 at Palakkad, Kerala. The Company is listed on BSE and NSE. BPL Ltd is engaged in trading of electronic retail products under Brand "BPL" and manufacturing of Printed Circuit Boards (PCB). The trading sales from Consumer durables/ electronic Retail products constitute ~82% and remaining 18% is derived from manufacturing of PCBs as on 31 Mar 2019. Till recently, the company sold its consumer durable products to online platforms like Amazon and Flipkart etc. The company has informed that it has entered into an agreement with Reliance Retail limited to sell its products through them. The company's PCB segment has installed capacity of 2.88 lac sq m with utilisation of 53% in FY19. The company has completed the upgradation of the plant through internal accruals during FY20. The end use industry for the manufactured PCBs are lighting and automotive industry.

The company underwent Corporate Debt Restructuring (CDR) during 2005 for a debt of ~Rs.1472 cr. Total debt of ~Rs.1472 cr was restructured under CDR package with a combination of waivers, immediate payments, loans at zero and 8% coupon and issuance of preference shares in the ratio of ~49%, ~23%, ~18% and ~10% respectively. The company has repaid its term debt amounting to Rs.265.30 crore that was its liability in accordance with the CDR Scheme. The

promoters have also bought the preference shares from outsiders (Banks/ Lenders) amounting to Rs.115.19 crore. Presently, preference shares from outsiders of Rs.54.39 crore (OBC, Canara Bank, HDFC Limited, Export Import Bank Ltd, CBI) are due for redemption.

The company was set up and promoted by Mr.T.P.G Nambiar. Presently, his son Mr. Ajit G Nambiar is the Chairman and the Managing Director. Mrs. Anju Chandrasekhar, Mr. Suraj L Mehta and Capt Subbarao Prabhala are the other directors of the company.

### Key Financial Indicators

Parameters		31 Mar 2018 Audited	31 Mar 2019 Audited
Revenue	Rs. Crs	125.24	140.28
EBITDA	Rs. Crs	10.20	3.05
PAT	Rs. Crs	7.35	0.93
Tangible Net Worth (TNW)	Rs. Crs	130.00	130.94
Total Debt/TNW	Times	0.05	0.07
TOL/TNW	Times	1.50	1.54
Current Ratio	Times	0.79	0.80

On an unaudited basis, the Company has reported total operating income of Rs.75.90 Crs for 9MFY20.

**Key Covenants of the facility rated:** The terms of sanction include standard covenants normally stipulated for such facilities.

**Status of non-cooperation with previous CRA:** India Ratings has migrated its ratings of the bank loan facilities of the company to the Issuer Not Cooperating\* category w.e.f. 24 Jan 2020, due to non cooperation of the company in the surveillance exercise.

*\* Issuer did not cooperate; Based on best available information*

**Rating History For The Previous Three Years [including withdrawal and suspended]**

Facility	Current Rating (June 2020)			Rating History		
	Tenure	Amount (Rs Crs)	Rating	2019	2018	2017
<b>Fund Based</b>				Nil	Nil	Nil
SOD-RE	Long Term	10.00	<b>BWR B/ Stable</b>			
<b>Non-Fund Based</b>						
Letter of Credit (ILC/FLC)	Short Term	18.00	<b>BWR A4</b>			
<b>Total</b>		<b>28.00</b>	<b>Rupees Twenty Eight Crores only.</b>			

**Complexity Levels of the Instruments**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

<u><b>General Criteria</b></u>	<u><b>Manufacturing Companies</b></u>
<u><b>Approach to Financial Ratios</b></u>	<u><b>Short Term Debt</b></u>

<b>Analytical Contacts</b>	<b>Investor and Media Relations</b>
<p>Saakshi Kanwar            Manager- Ratings            Board: +91 80 4040 9940 Ext: 364            saakshi.k@brickworkratings.com</p> <p>Rajee R            Senior Director - Ratings            B: +91 80 4040 9940            rajee.r@brickworkratings.com</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686            liena.t@brickworkratings.com</p>

### Annexure I: Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1	Andhra Bank (Now merged with Union Bank of India)	SOD-RE	10.00	-	10.00
2		Letter of Credit	-	18.00	18.00
<b>Total</b>			<b>10.00</b>	<b>18.00</b>	<b>28.00</b>

**Note:** In addition to the above limits, the company also has a sanctioned Forward contract limit of Rs.18.00 cr which has not been rated at the request of the company.

For print and digital media The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

**About Brickwork Ratings :**Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

**DISCLAIMER** Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons