

No. CARE/HRO/RL/2020-21/1786

Shri Surendra Bhutoria
Chief Financial Officer
Bhagyanagar India Limited
5th floor, Surya towers
Sardar Patel Road
Secunderabad
Telangana 500003

December 21, 2020

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your Company for FY20 (Audited) and H1FY21 (Published), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	43.00 (Enhanced from 40.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	10.00	CARE A3+ (A Three Plus)	Reaffirmed
Short Term Bank Facilities	6.00	CARE A3+ (A Three Plus)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short Term Bank Facilities	12.00 (Reduced from 15.00)	CARE A3+ (A Three Plus)	Revised from CARE BBB; Stable / CARE A3+ (Triple B ; Outlook: Stable / A Three Plus)
Total Facilities	71.00 (Rs. Seventy-One Crore Only)		

- Refer **Annexure 1** for details of rated facilities.
- The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure 2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

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matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by December 23, 2020, we will proceed on the basis that you have no any comments to offer.

4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.
8. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
9. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

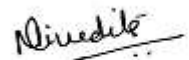
If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,



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Encl.: As above

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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Annexure 1

Details of Rated Facilities

1. Long Term Facilities

1. A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	State Bank of India	37.00	Cash Credit-Total Sanctioned amount is Rs 40.00 crore
2.	ICICI Bank Ltd.	6.00	Cash Credit-Total Sanctioned Amount is Rs 10.00 crore
	Total	43.00	

Total Long Term Facilities: Rs.43.00 crore

2. Short Term Facilities

2. A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	State Bank of India	6.00	Stand by LC (SLC)
	Total	6.00	

2. B. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	ICICI Bank Ltd.	5.00	LOCSTL; Total Sanctioned Limit if Rs 10.00 crore
	Total	5.00	

2. C. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	RBL Bank Limited	7.00	Sales Bill Discounting
	Total	7.00	

2. D. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	HDFC Bank Ltd.	10.00	Total Sanctioned Amount is Rs 15.00 crore; Buyers Credit
	Total	10.00	

Total Short Term Facilities: Rs.28.00 crore

Total Facilities (1.A+2.A+2.B+2.C+2.D) : Rs.71.00 crore

Annexure-II
Draft Press Release
Bhagyanagar India Limited

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	43.00 (Enhanced from 40.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	10.00	CARE A3+ (A Three Plus)	Reaffirmed
Short Term Bank Facilities	6.00	CARE A3+ (A Three Plus)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short Term Bank Facilities	12.00 (Reduced from 15.00)	CARE A3+ (A Three Plus)	Revised from CARE BBB; Stable / CARE A3+ (Triple B ; Outlook: Stable / A Three Plus)
Total Bank Facilities	71.00 (Rs. Seventy-One Crore Only)		

Details of facilities/instruments in annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of Bhagyanagar India Limited (BIL) is on account of stable scale of operation albeit decline in profitability coupled with comfortable leverage and coverage indicators. The ratings continue to be underpinned by the experienced promoters and established group, long proven track record of operation, reputed clientele and stable industry growth prospects. The rating strengths are however partially offset by thin profitability margins, moderately elongated inventory holding period, volatile global copper prices, foreign exchange fluctuation risk and competitive nature of industry. The ratings also take cognizance of impact of COVID-19 on the performance of the company.

Rating Sensitivities

Positive Factors

- ✓ Improvement in the PBILDT margin above 4% coupled with sustainable increase in TOI (consolidated)
- ✓ Ability of the company to efficiently manage its inventory levels resulting in operating cycle less than a month

Negative Factors

- ✗ Adverse impact of global copper price movements on the profitability of the company resulting in PBILDT margin falling below 2% (consolidated), in future years.
- ✗ Deterioration in the overall gearing to more than 1.30x (consolidated), going forward.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and a part of well established “Surana Group”

Bhagyanagar India Limited (BIL) was founded by Mr. G M Surana in 1985. Mr. G M Surana is the Chairman and head the Surana Group of companies based out of Hyderabad. The Managing Director of BIL; Mr. Devendra Surana (son of Mr. G M Surana) is a Mechanical Engineer from Osmania University and holds a Post Graduate Diploma in Management from IIM, Bangalore. He has been in the field of Ferrous &

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Non Ferrous & Telecom Industry for the more than a decade. The board of Directors of BIL is diversified with four independent directors and two whole time directors who are highly respectable professionals in their area of expertise

BIL belongs to a well-established Hyderabad based group viz. "Surana group". Founded in 1978, the Surana Group is a well-diversified business conglomerate with presence across sectors like Telecommunications, Copper products, Real estate, Wind Power generation, Solar Power generation and related EPC activities. The company benefits from the overall synergies derived from the other group entities and established group name.

Proven track record of operations

Being one of the oldest copper product manufacturing company with over three decades of experience, BIL has been able to establish itself as one of the leading players in the copper products. The company manufactures a wide range of copper products including value added products. Its product portfolio includes copper bus-bars, flats, paper insulated copper conductors, auto commutators, copper nuggets, copper foils, copper tubes, copper wires and rods among others. Looking at the trend of electric automobile demand, going forward the company plans to develop products that are used in electrical vehicles to increase its product portfolio.

Reputed Customer Base

With demonstrated business acumen and high quality products BIL has successfully established itself as one of the major producer of copper products in the industry. The company has developed long term relationships with major OEM (Original Equipment Manufacturer's) players in automobile, ad electrical sectors. The company receives regular orders from these customers depending upon the demand in particular industry. Few of the customers of BIL include Lucas- TVS, Fine cab Wires and Cables Private Limited, HBL Power System Limited, Valeo products LLP, Esennar Transformers Pvt Ltd.

Stable operating income albeit softened profitability margins in FY20

The total operating income (TOI) for the company in FY20 broadly remained stable with a marginal y-o-y decline of 1.21% on account of muted demand from the automobile industry coupled with loss of nine business days during the month of March 2020 due to COVID induced lockdown. On account of increase in the power costs led by unfavorable tyre oil prices, PBDILT margin for the company declined from 3.49% in FY19 to 2.77% in FY20. Nevertheless, Bhagyanagar Copper Private Limited (BCPL; wholly owned subsidiary of BIL) commenced its full-fledged operations during FY20 and booked a revenue of Rs 143.35 crore on a standalone basis. BCPL is expected to contribute more to the overall revenue and profitability of the group, going forward.

Healthy capital structure

Overall gearing of the company has improved from 0.93x as on March 31, 2019 to 0.54x as on March 31, 2020 at the back of decreased dependency on working capital borrowings and part repayment of term loans. Also, repayments of term debt availed for setting up at plant w.r.t Bhagyanagar Copper Private Limited has begun which has further resulted in decrease in overall debt levels.

Key Rating Weakness

Elongated inventory holding

As on March 31, 2020, the operating cycle of the company elongated to 70 days (PY: 56 days) due to increase in average inventory period to 51 days (PY: 44 days). As the company needs to maintain sufficient levels of raw material and finished inventory given the fluctuating copper prices and lead time involved in imports, thereby resulting in high inventory holding. However, the debtor period continues to remain satisfactory at 23 days as on March 31, 2020 (PY: 20 days).

Volatility in the global copper market and forex risk

Copper and copper scrap forms the major raw materials for the company. The copper prices have been volatile thereby impacting the profitability margins of the company. Copper prices have been mostly on a declining trend during FY20 at the back of US-China trade tensions. Further, BIL is also exposed to forex risk as some of the raw material is imported against which there is no export sales. The raw material imports formed around 21% of the total raw material cost against no export sales. However, the company normally hedges almost 70% to 80% of the inventory on the MCX thereby insulating it from such volatility to certain extent.

Competitive nature of Industry

The copper industry is highly fragmented with the presence of both organized and unorganized players in the downstream providing similar products/ services. Nevertheless, the share of organized players have been increasing post GST implementation. However, BIL has relatively lower bargaining power owing to the competitive nature of the industry.

Impact of Covid-19

With the gradual relaxation of COVID induced lockdown restrictions and permission by the Government to resume operations; the factories and offices of BIL gradually re-commenced operation from May, 2020. The operations of the company were shut for about 49 days. The company hires labour from the local areas near the factory and hence it did not witness any major issues with respect to migration of workers. The company also undertook various cost reduction measures by maintaining minimum stocks of raw materials or purchasing the raw materials only when prices were favorable etc.

Although, the company incurred a net loss in Q4FY20 and witnessed a lukewarm performance during Q1FY21, with resumption of operations and increase in demand, the performance of the company improved during Q2FY21.

Industry Outlook

Global copper demand growth in FY2020 has been weaker than expected, reflecting a deterioration in the global macro-economic landscape. The prices decline due to weak demand amidst China and US China trade dispute, supply chain de-stocking. Ex-China demand has remained weak from auto, electronics and consumer goods sectors. Average LME copper prices decreased by 8% compared with FY2019. Goldman Sachs International is anticipating a further rise in copper prices to USD 10,000 per tonne by 2022, from the current levels of slightly above USD 7,600.

Liquidity analysis: Adequate

The liquidity position of the company is adequate with sufficient cash accruals vis-a-vis repayment obligations. The reliance on working capital limits have been low with an average utilization at 57% for the past twelve month period ended October, 2020. The capex requirement of the company are modest for which it has sufficient headroom. The liquidity is further supported by an above unity of current ratio and positive cash flows from operations as on March 31, 2020. BIL and BCIL did not avail moratorium for debt repayment, however, SBI had provided blanket approval for moratorium and hence no interest was charged by SBI from BIL for six months i.e. from March, 2020 to August, 2020, the dues were however repaid in full during September, 2020.

Analytical approach: Consolidated

CARE has analyzed the consolidated financials of Bhagyanagar India Limited and its 100% owned subsidiary, Bhagyanagar Copper Private Limited while arriving at the ratings of Bhagyanagar India Limited.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios –Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology -Manufacturing Companies](#)

[Rating Methodology: Consolidation](#)

About the Company

Bhagyanagar India Limited (BIL) incorporated in 1985 is the flagship company of the Hyderabad based Surana Group promoted by Mr. G M Surana and is listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The company is primarily engaged in the business of manufacturing of wide range of copper product. The company has its manufacturing unit located in Nacharam, Hyderabad with an installed capacity of 15000 Metric tonnes (MT) per annum.

Bhagyanagar Copper Private Limited (BCPL; erstwhile Aanvik Mercantile Private Limited) was incorporated in April 2008. 100% holding of BCPL was acquired by Bhagyanagar India Limited (BIL) in February 2018. Under BCPL, the group has set up copper plant with an installed capacity of 4000 MT and BCPL commenced its commercial operations from March, 2019.

Brief Financials (Rs. crore) (Consolidated)	FY19 (A)	FY20 (A)
Total operating income	569.95	563.04
PBILDT	19.91	15.62
PAT	6.34	1.04
Overall gearing (times)	0.93	0.54
Interest coverage (times)	2.60	1.64

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	43.00	CARE BBB; Stable
Fund-based - ST-Standby Line of Credit	-	-	-	6.00	CARE A3+
Fund-based - ST-Line of Credit	-	-	-	5.00	CARE A3+
Non-fund-based - ST-Letter of credit	-	-	-	7.00	CARE A3+
Non-fund-based - ST-Working Capital Limits	-	-	-	10.00	CARE A3+

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Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (18-Feb-20) 2)CARE BBB; Negative (23-Oct-19)	1)CARE BBB+; Stable (12-Jul-18)	-
2.	Fund-based - LT-Cash Credit	LT	43.00	CARE BBB; Stable	-	1)CARE BBB; Stable (18-Feb-20) 2)CARE BBB; Negative (23-Oct-19)	1)CARE BBB+; Stable (12-Jul-18)	-
3.	Fund-based - ST-Standby Line of Credit	ST	6.00	CARE A3+	-	1)CARE BBB; Stable (18-Feb-20) 2)CARE BBB; Negative (23-Oct-19)	1)CARE BBB+; Stable (12-Jul-18)	-
4.	Fund-based - ST-Line of Credit	ST	5.00	CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (18-Feb-20) 2)CARE BBB; Negative / CARE A3+ (23-Oct-19)	1)CARE BBB+; Stable / CARE A2 (12-Jul-18)	-
5.	Non-fund-based - ST-Letter of credit	ST	7.00	CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (18-Feb-20) 2)CARE BBB; Negative / CARE A3+ (23-Oct-19)	1)CARE BBB+; Stable / CARE A2 (12-Jul-18)	-
6.	Fund-based - LT-Line Of Credit	LT	-	-	-	1)Withdrawn (18-Feb-20) 2)CARE BBB; Negative	-	-

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						(23-Oct-19)		
7.	Non-fund-based - ST-Working Capital Limits	ST	10.00	CARE A3+	-	1)CARE A3+ (18-Feb-20) 2)CARE A3+ (23-Oct-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - ST-Line of Credit	Simple
3.	Non-fund-based - ST-Letter of credit	Simple
4.	Non-fund-based - ST-Working Capital Limits	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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