August 27, 2024

# Bharat Fritz Werner Limited: Long-term rating upgraded to [ICRA]A (Stable); Short-term rating reaffirmed at [ICRA]A2+; Rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long Term-Fund Based-Cash Credit** | 65.50 | 66.50 | [ICRA]A (Stable); upgraded from [ICRA]A-(Stable)/assigned for enhanced amount |
| **Long Term-Fund Based-Term Loan** | 158.72 | 168.30 | [ICRA]A (Stable); upgraded from [ICRA]A-(Stable)/ assigned for enhanced amount |
| **Long term - Unallocated** | 0.66 | 25.00 | [ICRA]A (Stable); upgraded from [ICRA]A-(Stable)/ assigned for enhanced amount |
| **Short Term-Non-Fund Based** | 94.50 | 108.50 | [ICRA]A2+; reaffirmed/ assigned for enhanced amount |
| **Total** | **319.38** | **368.30** | |

**Instrument details are provided in Annexure-I*

## Rationale

The rating action on the bank lines Bharat Fritz Werner Limited (BFW/the company) factors in the healthy improvement in the company's revenues and margins in FY2024, and expectation of sustained improvement in accruals and debt metrics over the medium term, given the completion of a large part of the project/new facility capex and absence of significant debt-funded capex plans going forward. BFW is an established player in the Indian machine tool industry with presence of more than six decades and a diversified customer base. The company's operating income stood at 1,362.7 crore in FY2024 (unaudited), a YoY improvement of 19%, supported by a combination of factors including healthy capex and replacement demand increase in realisation, import substitution and higher export sales among others. For the period FY2020-FY2024, the company reported a healthy compounded annual revenue growth rate (CAGR) of 24.5%. The company's operating margins also improved to 6.1% in FY2024 and 6.2% in 4M FY2025 (from 3.5% in FY2023), supported by favourable cost structure and higher automation at the new plant in Hosur, Tamil Nadu, increase in proportion of margin-accretive export orders and other cost-optimisation measures undertaken by the company, apart from operating leverage benefits with improvement in scale. The demand outlook remains favourable over the near to medium term in both domestic and export markets, and the company has a healthy order book of over Rs. 900 crore as on June 30, 2024. The improved margins are likely to sustain going forward with increase in proportion of revenues from the Hosur plant and exports.

BFW's operations necessitate relatively high raw material and spare parts stocking, given the relatively long gestation period of manufacturing machine tools. Accordingly, the payment to creditors is elongated leading to low current ratio and relatively high Total outside liabilities (TOL) to Tangible networth (TNW) of 2.7x as on March 31, 2024. The company has incurred sizeable capex for construction of its new plant in Hosur, Tamil Nadu, for capacity enhancement. A large part of the capex is debt-funded, as a result of which debt metrics are moderate. The company reported a net debt/OPBITDA of 2.9 times and interest coverage of 4.3 times in FY2024. The capital structure and coverage metrics are expected to gradually improve going forward once revenues and accruals from the incremental capacity scale up, in the absence of debt-funded capex over the medium term.

The stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile and improve debt metrics, supported by cash accruals, adequate liquidity position and absence of significant debt funded capex over the medium term.

## Key rating drivers and their description

### Credit strengths

**Established presence in the machine tools industry –** BFW has an extensive track record in the Indian machine tool industry spanning more than six decades. The company manufactures multiple categories of machines including vertical machines (VMC, 53% of revenues in FY2024), horizontal machines (HMC, 24% of revenues in FY2024), special purpose machines (SPM, 5% of revenues in FY2024), milling machines (1% of revenues in FY2024), turning machines (13% of revenues in FY2024) and sales of spares and services (4% of revenues in FY2024). Its products are used in several industries that require metal cutting, such as automotive, industrial applications and defence among others. The company's long presence in the industry and its strong technical and design capabilities enable it to provide customised machines to customers.

**Diversified clientele -** BFW has a well-established relationship with its reputed clientele comprising several tier-I auto component suppliers. Its revenues are diversified with the top 10 customers accounting for only 21% of the company's revenues in FY2024, thereby insulating its revenues from any loss of customers to competition or lower orders from specific customers. The company has also been getting repeat orders over the years, which has supported its revenue growth.

**Strong revenue growth and improvement in margins in FY2024 and 4M FY2025 –** The company's operating income stood at 1,362.7 crore in FY2024 (unaudited), a YoY improvement of 19%, supported by a combination of factors including healthy capex and replacement demand increase in realisation, import substitution and higher export sales among others. For the period FY2020-FY2024, the company reported a healthy compounded annual revenue growth rate (CAGR) of 24.5%. The company's operating margins also improved to 6.1% in FY2024 and 6.2% in 4M FY2025 (from 3.5% in FY2023), supported by favourable cost structure and higher automation at the new plant in Hosur, Tamil Nadu, increase in proportion of margin-accretive export orders and other cost-optimisation measures undertaken by the company, apart from operating leverage benefits with improvement in scale. The demand outlook remains favourable over the near to medium term in both domestic and export markets, and the company has a healthy order book of over Rs. 900 crore as on June 30, 2024. The improved margins are likely to sustain going forward with increase in proportion of revenues from the Hosur plant and exports.

### Credit challenges

**Moderate debt metrics** - BFW's operations necessitate relatively high raw material and spare parts stocking, given the relatively long gestation period of manufacturing machine tools. Accordingly, the payment to creditors is elongated leading to low current ratio and relatively high Total outside liabilities (TOL) to Tangible networth (TNW), of 2.7x as on March 31, 2024. Further, the company has incurred sizeable capex for construction of its new plant in Hosur. The total capex outlay for the plant is Rs. 190.0 crore, out of which significant portion was spent during FY2023 and FY2024; Rs. 25 crore is yet to be incurred and will be spent in FY2025. A large part of the capex is debt-funded, as a result of which debt metrics are moderate, with the company reporting a net debt/OPBITDA of 2.9 times and interest coverage of 4.3 times in FY2024. However, the capacity expansion is critical to bag incremental orders, given the high capacity utilisation in the existing plant and the loans availed for capex have an elongated tenor of 8 years, easing cash outflows to an extent. Also, given that a major portion of capex has been completed, project related risks including cost overruns remain limited. The capital structure and coverage metrics are expected to gradually improve going forward once revenues and accruals from the incremental capacity scale up, in the absence of debt-funded capex over the medium term.

**Earnings susceptible to volatility in demand from underlying consumer sectors and risks arising from competition –** BFW's revenues and profitability remain susceptible to volatility in demand from the underlying consumer sectors (primarily auto) and the macro-economic environment. However, the consolidation in the industry with shift in demand to organised players from unorganised players and import substitution would support BFW's revenues over the medium term.

## Liquidity position: Adequate

BFW's liquidity profile remains adequate supported by its anticipated cash flows from operations and undrawn fund-based working capital lines of Rs. 17.7 crore as of March 31, 2024. BFW's average fund-based working capital utilisation was moderate at 62% of its sanctioned limits for the period April 2023 to March 2024. The company had minimal free cash and bank balances of Rs. 0.8 crore as of March 2024. Against this, the company has planned capex of Rs. 25 crore in FY2025 pertaining to the residual portion for the Hosur plant, and regular maintenance capex of Rs. 5-10 crore for FY2026 and FY2027. The FY2025 capex would be funded through already tied-up debt, while the maintenance capex would be funded through internal accruals. The company has principal repayments of Rs. 13.8 crore in FY2025, Rs. 20.5 crore in FY2026 and Rs. 27.4 crore in FY2027 on its existing and sanctioned loans. Overall, ICRA expects BFW to be able to meet its near-term commitments through internal sources of cash and yet be left with sufficient cash/liquid investments surplus.

## Rating sensitivities

**Positive factors –** ICRA could upgrade BFW's ratings if its revenues and profitability improve significantly and on a sustained basis, resulting in material improvement in debt metrics (including Total outside liabilities to tangible networth) and liquidity position.

**Negative factors –** Negative pressure on the ratings could arise in case of sustained demand slowdown in the end-user industries resulting in material contraction in revenues, earnings and cashflows, leading to weakening of debt metrics and liquidity position on a sustained basis. Specific metrics that could lead to a downgrade would be DSCR less than 1.8 times on a sustained basis

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | The ratings are based on the consolidated financial statements of Bharat Fritz Werner Limited, as mentioned in Annexure-2. |

## About the company

Bharat Fritz Werner Limited is a leading producer of machine tools in India and is part of the Kolkata-based Kothari Group. The company is involved in manufacturing CNC (computer numerical control) milling and turning machines. It supplies products primarily to customers in the auto sector. The company has three subsidiaries. The subsidiary—M2NXT Solutions Private Limited—incorporated in 2019, is a digital cyber automation solutions provider that provides solutions in connecting various processes for advanced manufacturing processes. BFW Asset Management GmbH, is involved in precision manufacturing and machining. The company incorporated a 100% subsidiary in BFW Europe SAS, France in FY2024. BFW's manufacturing facilities are located at Peenya, Bangalore, and Hosur, Tamil Nadu.

### Key financial indicators

| Consolidated | FY2023 (Audited) | FY2024 (Unaudited) |
|---|---|---|
| **Operating income** | 1145.1 | 1362.7 |
| **PAT** | 15.7 | 41.7 |
| **OPBDIT/OI** | 3.5% | 6.1% |
| **PAT/OI** | 1.4% | 3.1% |
| **Total outside liabilities/Tangible net worth (times)** | 2.1 | 2.7 |
| **Total debt/OPBDIT (times)** | 2.4 | 2.9 |
| **Interest coverage (times)** | 4.5 | 4.3 |

*Source: Company, ICRA Research; Amount in Rs. crore Financial ratios are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

| | Current (FY2025) | | | Chronology of rating history for the past 3 years | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | FY2024 | | FY2023 | | FY2022 | |
| Instrument | Type | Amount Rated (Rs. Crore) | Aug 27, 2024 | Date | Rating | Date | Rating | Date | Rating |
| **Cash Credit** | Long Term | 66.50 | [ICRA]A (Stable) | 31-Jul-2023 | [ICRA]A- (Stable) | 09-Sep-2022 | [ICRA]A- (Positive) | 16-Jun-2021 | [ICRA]A- (Stable) |
| | | | | 10-Aug-2023 | [ICRA]A- (Stable) | - | - | - | - |
| **Term Loan** | Long Term | 168.30 | [ICRA]A (Stable) | 31-Jul-2023 | [ICRA]A- (Stable) | 09-Sep-2022 | [ICRA]A- (Positive) | 16-Jun-2021 | [ICRA]A- (Stable) |
| | | | | 10-Aug-2023 | [ICRA]A- (Stable) | - | - | - | - |
| **Non-fund Based limits** | Short Term | 108.50 | [ICRA]A2+ | 31-Jul-2023 | [ICRA]A2+ | 09-Sep-2022 | [ICRA]A2+ | 16-Jun-2021 | [ICRA]A2+ |
| | | | | 10-Aug-2023 | [ICRA]A2+ | - | - | - | - |
| **Unallocated** | Long Term | 25.00 | [ICRA]A (Stable) | 31-Jul-2023 | [ICRA]A- (Stable) | - | - | 16-Jun-2021 | [ICRA]A- (Stable) |
| | | | | 10-Aug-2023 | [ICRA]A- (Stable) | - | - | - | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long-term fund-based – Cash Credit** | Simple |
| **Long-term fund-based – Term Loan** | Simple |
| **Short term Non-fund Based** | Very Simple |
| **Long term - Unallocated** | Not Applicable |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

## Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | **Long-term Fund-based – Cash Credit** | NA | NA | NA | 66.50 | [ICRA]A (Stable) |
| **NA** | **Long-term Fund-based – Term Loan** | FY2020-FY2024 | 9.15%-10.75% | FY2026-FY2031 | 168.30 | [ICRA]A (Stable) |
| **NA** | **Long term - Unallocated Limits** | NA | NA | NA | 25.00 | [ICRA]A (Stable) |
| **NA** | **Short-term Non-fund Based** | NA | NA | NA | 108.50 | [ICRA]A2+ |

*Source: Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

## Annexure II: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| **Excel Precision Manufacturing Limited** | 99.66% | Full Consolidation |
| **M2NXT Solutions Private Limited** | 99.99% | Full Consolidation |
| **BFW Advanced Manufacturing Private Limited** | 100.00% | Full Consolidation |
| **BFW Europe SAS, France** | 100.00% | Full Consolidation |

*Source: Company*

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## About ICRA Limited:

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