RACL Geartech Limited

October 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	297.08 (Enhanced from 206.59)	CARE A-; Stable	Reaffirmed
Short Term Bank Facilities	3.00 (Reduced from 5.00)	CARE A2+	Revised from CARE A2

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the short-term ratings assigned to the bank facilities of RACL Geartech Limited (RACL) takes into account continued improvement in operational performance driven by export sales as reflected by growing scale of operations and healthy profitability margins during FY23 (refers to the period from April 01, 2022 to March 31, 2023) and Q1FY24 (refers to the period from April 01, 2023 to June 30, 2023) coupled with steady cash flow from operations. Further, the ratings continue to derive strength from experienced promoters along with their long track record of operations, established player in the transmission gears and shafts for automotive applications along with the reputed customer base, and geographically diversified revenue mix. However, the ratings are constrained by the ongoing project undertaken for the purpose of creating capacities for new products for the nomination letters received from customers, raw material price volatility risk along with the presence of foreign exchange fluctuation risk, high working capital intensive nature of operations along with cyclical nature of the automotive industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in scale of operations beyond Rs.450.00 crore while maintaining profitability margins and continued relationship with its key customers.
- Improvement in capital structure leading to overall gearing below 0.75x.

Negative factors

- Decline in scale of operations below Rs.225.00 crore.
- Higher than envisaged capex leading to deterioration in the capital structure with continuing overall gearing of more than 1.2x. .

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects company to have stable operational performance on the back of its association with premium segment export customers with whom it has long-term relationships.

Detailed description of the key rating drivers:

Key strengths

Improvement in scale of operations coupled with high profitability margins: The total operating income of the company grew by ~34% to Rs.367.01 crore in FY23 driven by growth in export sales. Further, in terms of profitability, the PBILDT margin of the company improved to 24.95% in FY23 (PY: 22.13%) owing to higher value addition on the products sold by the company. Consequently, the PAT margin of the company improved to 10.20% in FY23 (PY: 8.71%). The higher profitability margin is owing to RACL catering to premium segment export customers. During Q1FY24, the total operating income of the company grew by ~13% to Rs.88.44 crore (PY: Rs.78.23 crore). The PBILDT margin of the company improved to 24.89% (PY: 19.26%). Consequently, the PAT margin of the company improved to 9.93% in Q1FY24 (PY: 7.73%). Going forward, CARE expects the PBILDT margin to remain in the range of ~25%.

Experienced promoters: RACL has more than three and a half decades of presence in the automobile component industry. Mr. Gursharan Singh, CMD (Chairman & Managing Director) of the company, joined the company as a plant head and has been associated with the company since its inception. He is a mechanical engineer with Post-Graduate Diploma in Export Management. He is ably supported by a team of professionals who have been with the company for more than two decades.

Established player in transmission gears and shafts for automotive and industrial applications: RACL is engaged in the business of manufacturing of transmission gears and shafts for automotive and industrial applications since 1980s. The company has renowned Original Equipment Manufacturers (OEMs) in the auto as well as industrial segment as its long-standing

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

customers. It has an established relationship with some of the leading global original equipment manufacturers (OEMs) which cater to the premium segment. RGL's business risk profile has improved over the years by adding new customers by increasing its product portfolio and entering into new segment of automobile industry. The addition in customer base was supported by supply of quality products while adhering to international standards laid down by international quality assessment team.

Reputed customer base Though, RACL has moderate concentration risk with top five customers contributing ~60% of total revenue in FY23 (PY: ~67%), however, comfort is drawn from the fact that the company is a preferred vendor for many of its premium segment export customers with whom it has long-term relationships. Also, the management as a part of its strategy ensures that sales does not exceed 20% of total revenue to any single customer. The largest contributor during FY23 was ~15% of the total revenue thereby reducing dependence on any one customer.

Key weaknesses

Moderate Capital structure: The capital structure of the company remains moderate as reflected by overall gearing which stood at 1.22x as on March 31, 2023 (PY: 1.26x). The debt coverage indicators also stood moderate with interest coverage ratio and total debt to GCA of 4.43x and 3.50x respectively in FY23 (PY: 4.91x and 4.02x respectively).

Foreign Exchange fluctuation and raw material price risk: The company derives its revenue majorly through exports which was ~76% of total revenue in FY23 (PY: 67%). Though the profitability margins are exposed to volatility in foreign exchange however the same are mitigated with the availment of export credit in foreign exchange. Further, the company discounts the invoices with banks at an early stage to minimize the forex fluctuation risk. During FY23, the company reported net gain of Rs.2.28 crore due to foreign currency fluctuation (PY: gain of Rs.0.89 crore). Further, the company's main raw material include steel and forgings and the increase/decrease in their prices also exposes the company to raw material price risk, however, the same is mitigated as it is passed through to the customers.

Working capital intensive nature of operations: Being in auto ancillary industry, the operations of the company are working capital intensive in nature. The company has to maintain inventory of around 3.5 months with large product range (more than 500 products under regular production). Also, to cater the demand of major customers, company stocks inventory at its warehouses near customers' factory for uninterrupted flow of products with minimum transit time (The company has the warehouses in Austria for the same purpose). Credit period of close to 2 months is allowed to domestic customers, contributing 24% of total operating income, while collection from overseas customers, which contributes 76% of total operating income, usually happens in 3-4 months. Furthermore, the company gets credit period of up to 1.5 months from the suppliers which it has been reducing to avail cash discounts. Overall, this leads to a working capital cycle of around 5 months, which further leads to high reliance on the fund-based facilities to meet the working capital requirements. The average working capital utilization remained ~81% during trailing 12-month period ending July 31, 2023.

Project Risk: The company has projected capital expenditure of ~Rs.61 crore for FY24 (refers to the period from April 01, 2023 to March 31, 2024) for the purpose of creating capacities for existing products alongside new customers and modernization/upgradation of existing plant and machinery. RACL manufactures very high-quality precision components, whereby all the investments are made by the company on the basis of tentative supply schedules of the customers both domestic as well as export. The schedules are received in the form of nomination letters for components which are for the entire life of the vehicle. No investment is made by the company unless the company gets a nomination letter from the customer which normally takes 1 to 2 years-time for supply so that company can arrange machines and develop tooling for the components and most of the critical machines are imported having delivery period up to 12 months. The company received nomination letter from new customers for supply of certain new component parts for which the capex was undertaken, wherein ~Rs.29.00 crore of the capex has already been incurred till June 30, 2023. Further, the said capex is less than 50% of the tangible net worth base. The same is to be funded by a combination of term debt (already sanctioned) and internal accruals.

Industry Prospects: The automobile industry is highly cyclical in nature and automotive component suppliers' sales are directly linked to sales of auto OEMs. Furthermore, the auto-ancillary industry is highly competitive with the presence of a large number of players in the organized as well as unorganized sector. While the organized segment majorly caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to tier II and III suppliers. The Russia-Ukraine war has triggered increasing input prices along with energy crisis in Europe. However, the company supplies parts for the customers in premium segment, which is insulated to some extent. The company has projected healthy growth in top-line owing to the confirmed orders from customers along with nomination letters received from some of the reputed export customers for newer component parts.

Liquidity: Adequate – Liquidity position of the company is adequate as reflected by projected gross cash accruals of Rs.68.29 crore in FY24 against scheduled repayments of Rs.38.40 crore. Further, the average utilization of working capital borrowings stood ~81% for the trailing 12 months ended July 31, 2023. The company had free cash and bank balance of Rs.10.72 crore as on June 30, 2023. RACL is planning to incur capex of ~Rs.61.00 crore in FY24 pertaining to capacity expansion and modernization of plant and machinery which is shall be funded through combination of debt (already sanctioned) and internal accruals.

Applicable criteria

[Policy on default recognition]
[Financial Ratios – Non financial Sector]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Credit Watch]
[Short Term Instruments]
[Auto Ancillary Companies]
[Manufacturing Companies]
[Policy on Withdrawal of Ratings]

About the company and industry

RACL (formerly Raunaq Automotive Components Limited) was incorporated in 1983 and is engaged in the business of manufacturing of transmission gears and shafts for automotive and industrial applications. The company was initially promoted by the Raunaq Group. However, due to financial difficulties the company was referred to Board for Industrial and Financial Reconstruction (BIFR) in 2001. Post-restructuring and with a new management team under leadership of Mr. Gursharan Singh (CMD), RACL came out of the BIFR purview in November 2007. The company has two manufacturing units in Uttar Pradesh at Gajraula and Noida.

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

Brief Financials (₹ crore)	FY22 (A)	FY23(A)	Q1FY24 (UA)
Total operating income	274.82	367.01	88.44
PBILDT	60.83	91.59	22.01
PAT	23.95	37.45	8.78
Overall gearing (times)	1.26	1.22	1.38
Interest coverage (times)	4.91	4.43	4.40

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March, 2027	161.58	CARE A-; Stable
Fund-based - LT-Working Capital Limits		-	-	-	135.50	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	3.00	CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	161.58	CARE A-; Stable	-	1)CARE A-; Stable (23-Sep-22)	1)CARE A-; Stable (27-Oct-21)	1)CARE BBB+; Stable (03-Sep-20)
2	Fund-based - LT-Working Capital Limits	LT	135.50	CARE A-; Stable	-	1)CARE A-; Stable (23-Sep-22)	1)CARE A-; Stable (27-Oct-21)	1)CARE BBB+; Stable (03-Sep-20)
3	Non-fund-based - ST-BG/LC	ST	3.00	CARE A2+	-	1)CARE A2 (23-Sep-22)	1)CARE A2 (27-Oct-21)	1)CARE A3+ (03-Sep-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities- Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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