

Bharat Gears Limited

October 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	138.59 (Reduced from 144.79)	CARE BBB; Stable	Reaffirmed
Short Term Bank Facilities	86.41 (Enhanced from 80.21)	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Bharat Gears Limited (BGL) derives strength from the well-experienced promoters with long track record of operations, established market position in the automotive gears and component industry, having strong and reputed clientele base albeit high customer concentration risk. Further the ratings favourably factor in moderate financial profile of the company.

The rating strengths continue to be constrained by susceptibility of margins to volatility in raw material prices and foreign exchange fluctuation risk, moderately working capital intensive nature of operations and inherent cyclicity of the auto component industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Healthy increase in revenue to around Rs. 900 crore on the back of healthy order book position coupled improvement in PBILDT margin at around 10%
- Sustenance of capital structure below unity levels along with improvement in debt coverage indicators
- Improvement in collection days to reach below 50 days

Negative factors

- Decline in scale of operations with revenue below 700 crore and PBILDT margin declining below 5% on sustained basis.
- Deterioration in overall gearing levels to more than envisaged levels and interest coverage ratio below 1.50x in projected years
- Increase in the operating cycle beyond 100 days leading to higher utilization of limits resulting into pressure on liquidity parameters.
- Any large debt funded capex or significant increase in operating cycle resulting into higher working capital requirements and weakening its liquidity and financial risk profile.

Analytical approach:

Standalone

Outlook: Stable

CARE Ratings believes that Bharat Gears Ltd will continue to benefit from the experience of promoters, their entrenched market position in the auto industry and their strong and reputed clientele base.

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

Detailed description of the key rating drivers:**Key strengths****Highly experienced promoters with long track record of operations in the industry**

BPL is currently managed by Mr. Surinder Paul Kanwar (Chairman and Managing Director) and Mr. Sameer Kanwar, Joint Managing Director who hold rich and vast experience of above four decades in the industry and is involved in the overall business operations of the company along with five other board of directors and a strong management team in place. Besides, the key management team at BGL comprises of five well experienced and qualified personnel holding experience of over three decades and who are instrumental in development and streamlining of various business operations of BGL.

Established marked position in the automotive component industry and strong and reputed clientele base albeit high customer concentration risk

BGL is a leading player in the Indian tractor gear market. By virtue of its established relationships with original equipment manufacturers (OEMs) and high quality, its products enjoy strong brand recognition. A major part of the company's revenue is derived from large OEMs such as the John Deere group, which constitutes around 28% (PY 42%) of the turnover in FY23. Bharat Gears Limited has a diverse customer base in the realm of tractors, utility vehicles, commercial vehicles, and construction equipment industries and who are some of the most eminent and distinguished automobile players in India and abroad. The company has been associated with these customers from many years and receives regular orders from them.

Comprehensive product portfolio albeit higher dependency on flagship product

BGL has a comprehensive product portfolio catering to diverse customer base in the realm of tractors, utility vehicles, commercial vehicles, and construction equipment industries and who are some of the most eminent and distinguished automobile players in India and abroad. BGL's plants are located in prominent places viz, Faridabad (New Delhi), Mumbra and Satara (Maharashtra) which are in close proximity to the vendors and customers and suppliers. Although, the product portfolio is skewed to one product i.e. gears, however comfort can be derived from the fact that it caters to agricultural sector which in itself is a diverse and vast sector with BGL catering to farm auto equipment and largely dependent on rural demand. Besides, BGL supplies to renowned customers having healthy credit profile and credit worthiness wherein regular orders and collection is ensured.

Moderate financial risk profile

The overall gearing of the company slightly improved from 1.42 times as on March 31, 2022 to 1.39 times as on March 31, 2023 owing to with improvement in the tangible net worth base from Rs. 107 crore as on March 31, 2022 to Rs. 120 crore as on March 31, 2023. The interest coverage ratio remained comfortable at 2.87 times in FY23 (PY 3.57 times). The company does not plan to undertake any major capital expansion plan and thus the gearing is expected to improve in next couple of years.

Key weaknesses**Marginal Growth in scale of operations coupled with decline in profit margins**

The total operating income (TOI) of the company grew marginally by 5% to 769.28 crores in FY23 from 729.17 crores in FY22. The growth has slowed down compared to the 45.53% growth in FY22 wherein the company recorded significant growth owing to the recovery of market segments catered by the company post easing of the lockdown restrictions. During Q1FY24 (refers to period April 2023 to June 2023), the company reported sales of Rs 170.89 crore

i.e 8.12% decline compared to Q1FY23(186.00 crore).The profitability margins of BGL have declined from 8.98% in FY22 to 6.98% in FY23 .This in turn has led to decrease in PAT margin from 3.54% in FY22 to 1.75% in FY23 and subsequently gross cash accruals. The performance is expected to remain moderate in FY24 due to slowdown in the export market and improve in FY25.

Moderately working capital intensive nature of operations

The operations of BGL remained moderately working capital-intensive owing to funds being utilized towards debtors and inventory. The company offers a credit period of 45-60 days to its customers. Also, BGL procures the raw materials from various steel forging companies based in and outside of the state, from whom it gets credit terms of 90 days. 60%- 70% of purchase of raw material is LC based. The inventory period improved slightly from 50 days in FY22 to 48 days in FY23. However, the operating cycle of the company deteriorated from 29 days in FY22 to 41 days in FY23 owing to decline in credit period. The average utilization of the cash credit facility for past 12 months ending August 2023 remained moderately utilized at 59% and LC utilization remained fully utilized for past twelve months ending August 2023.

Inherent cyclicity of the auto component and end-user industry

The products manufactured by BGL find applications in the automobile sector and agricultural tractor market which is cyclical in nature. The group derives majority of its income from heavy, medium, light trucks, utility vehicles, tractors and off-highway vehicles, with the remaining income coming from the commercial vehicle segment and construction equipment segment. Since BGL generates majority of its revenue from OEMs across the tractor, construction equipment, and commercial vehicle segments, it remains susceptible to cyclicity in these industries. The demand for this industry is also susceptible to changes in the economic climate. Furthermore customers preferences in many countries are moving towards environmentally friendly vehicles and there has been pressure on the automotive industry to reduce carbon emissions. Thus, such cyclicity in the respective sectors to which BGL caters may pose a threat to the business of BGL.

Susceptibility of margins to volatility in raw material prices

The operations of BGL are raw material intensive in nature with the raw material cost constituting 55.88% of the total operating income in FY23 vis-à-vis 55.05% of the TOI in FY22. With global steel prices highly volatile in nature and susceptible to speculative trading, the margins of BGL are exposed to raw material fluctuation risk. Given large variety of products being manufactured for different types of customers, which necessitates large inventory holding, the margins are exposed to any adverse movement in the raw material prices. However, BGL is able to pass on the increase in prices of steel and other RM to their customers to an extent with a lag of around three months. The company has a credit period to the tune of 90 days with its suppliers and the company gives credit period of 45-60 days to its customers.

Foreign exchange fluctuation risk

The company is exposed to foreign exchange fluctuation risk as the company exports to North American, European, and Asian countries with export contribution being around 39% in FY23. As compared to exports, there are no imports with the suppliers being domestic steel forging companies. However, the company partly mitigates foreign currency risk through foreign denominated PCFC limit of Rs. 17.20 crore and takes partial forward cover to hedge the risk. Nevertheless, the foreign exchange fluctuation risk continues to persist due to timing differences and volatility in the dollar prices. BGL has incurred foreign exchange profit of Rs. 2.76 crore in FY23 vis-à-vis foreign exchange profit of Rs. 2.82 crore in FY22.

Liquidity: Adequate

The company has repayment obligations of Rs. 16 crore in FY24 and Rs. 20 crore in FY25 and cash accruals is expected to be sufficient to meet the same. The average fund-based utilization for past 12 months ending August

2023 stood at 59% and non-fund-based limit utilization was 99% for the past twelve months ending August 2023. Also, cash flow from operating activities remained positive at Rs. 36.45 crore in FY23 (PY Rs. 22.13 crore in FY22). Further, current ratio slightly improved to 1.43 in FY23 from 1.32 in FY22.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Auto Ancillary Companies](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Incorporated in 1971, Bharat Gears Limited is a commercial gear manufacturing company and amongst the leading suppliers of automotive gears. BGL manufactures a wide spectrum of high-quality and highly engineered automotive gears for heavy, medium and light trucks, utility vehicles, tractors and off-highway vehicles in India and exports to North American, European, and Asian countries. The company has state-of-the-art manufacturing facilities located at 3 places - Mumbra near Mumbai; Faridabad near Delhi; and Satara in Maharashtra with installed capacity of 86,91,712 Tonnes per annum having capacity utilization of 7398822 Tonnes per annum i.e. 85% in FY23 . BGL's business segments is classified under various industries viz. Agricultural machinery, Commercial Vehicle, Construction Equipment, etc. with Agriculture machinery segment remaining the major revenue driver for the company (65% in FY23), with tractors being the key end user sector for its products.

Industry classification

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

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24(UA)
Total operating income	729.17	769.29	170.89
PBILD	65.49	49.10	8.95
PAT	25.84	13.48	(0.76)
Overall gearing (times)	1.42	1.39	NA
Interest coverage (times)	3.57	2.87	2.02

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-Cash Credit		-	-	-	45.00	CARE BBB; Stable
Fund-based - LT-Proposed fund based limits		-	-	-	5.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	May 10, 2028	88.59	CARE BBB; Stable
Non-fund-based - ST-BG/LC		-	-	-	75.00	CARE A3+
Non-fund-based - ST-Proposed non fund based limits		-	-	-	11.41	CARE A3+

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	88.59	CARE BBB; Stable	-	1)CARE BBB; Stable (26-Sep-22)	-	-
2	Non-fund-based - ST-Proposed non fund based limits	ST	11.41	CARE A3+	-	1)CARE A3+ (26-Sep-22)	-	-
3	Fund-based - LT-Cash Credit	LT	45.00	CARE BBB; Stable	-	1)CARE BBB; Stable (26-Sep-22)	-	-
4	Fund-based - LT-Proposed fund based limits	LT	5.00	CARE BBB; Stable	-	1)CARE BBB; Stable	-	-

						(26-Sep-22)		
5	Non-fund-based - ST-BG/LC	ST	75.00	CARE A3+	-	1)CARE A3+ (26-Sep-22)	-	-

*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-Cash Credit	Simple
2	Fund-based - LT-Proposed fund based limits	Simple
3	Fund-based - LT-Term Loan	Simple
4	Non-fund-based - ST-BG/LC	Simple
5	Non-fund-based - ST-Proposed non fund based limits	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.

Contact us

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About us:

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