

Bharat Gears Limited

February 08,2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	138.59	CARE BBB-; Stable	Revised from CARE BBB; Stable
Short Term Bank Facilities	86.41	CARE A3	Revised from CARE A3+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Bharat Gears Limited is on account of deterioration in operating performance of the company during 9MFY24 (refers to period April 2023 to December 2023). During 9MFY24, the company reported sales of Rs. 492.28 crore i.e 16% decline as compared to 9MFY23(Rs. 586.87 crore). The PBILDT margins of BGL declined from 6.16% in 9MFY23 to 3.29% in 9MFY24. The company posted loss at the net level of Rs. 7.99 crore during 9MFY24 as compared to PAT of Rs. 12.65 crore during 9MFY23. The decline in sales and profitability was on account of subdued demand from the export markets due to recessionary trends across US and Europe followed by sluggish demand in the domestic market. The profitability position is expected to stabilize going forward given that recovery expected in coming quarters.

The ratings derives strength from the well-experienced promoters with long track record of operations, BGL's entrenched market position in the automotive gears and component industry, having strong and reputed clientele base albeit high customer concentration risk, comprehensive product portfolio albeit higher dependency on flagship product along with strong manufacturing set up with extensive distribution network. Further the ratings favorably factor in the moderate financial profile characterized by moderate capital structure along with modest debt coverage indicators. The rating strengths are tempered by the stretched liquidity position , susceptibility of margins to volatility in raw material prices, moderately working capital intensive nature of operations, inherent cyclical nature of the auto component and end-user industry and foreign exchange fluctuation risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Healthy increase in revenue to around Rs. 800 crore on the back of healthy order book position coupled improvement in PBILDT margin at around 8%
- Sustenance of overall gearing below unity levels along with improvement in debt coverage indicators
- Improvement in collection days to reach below 60 days

Negative factors

- Decline in scale of operations with revenue below 600 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

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

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.

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% of the turnover. 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.

Strong manufacturing setup with extensive distribution network

BGL has strong manufacturing set up and infrastructure facilities with three manufacturing plants located in the vicinity of OEMs, catering to auto industry. 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 73,98,822 Tonnes per annum i.e. 85% in FY23. BGL's dealer network comprises of 80 dealers across 22 states of India. The company has 3 sales offices across Mumbai, Delhi and Kolkata.

Moderate capital structure and modest debt coverage indicators

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. 107.38 crore as on March 31, 2022 to Rs. 119.79 crore as on March 31, 2023. The company does not plan to undertake any major capital expansion apart from purchase of a machine worth 10 crores. However, the interest coverage ratio declined from 3.57 times

as on 31st March 2023 from 2.87 times as on 31st March 2022 owing to decrease in operating profitability. Further during 9MFY24 , the interest coverage further declined to 1.23 times owing to significant decline in operating profitability.

Key weaknesses

Weak operating performance during 9MFY24 due to subdued demand scenario

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. The profitability margins of BGL have declined from 8.98% in FY22 to 6.98% in FY23 . During 9MFY24, the company reported sales of Rs. 492.28 crore i.e 16% decline compared to 9MFY23(Rs. 586.87 crore). The PBILDT margins of BGL declined from 6.16% in 9MFY23 to 3.29% in 9MFY24. The decline in sales and profitability was on account of subdued demand from the export markets due to recessionary trends across US and Europe followed by sluggish demand in the domestic market. The profitability position is expected to stabilize going forward given that recovery is expected in the coming months.

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 January 2024 stood around 40% which provides significant liquidity backup and LC utilization remained high at 89% for past twelve months ending January 2024.

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 mitigates foreign currency risk through foreign denominated PCFC limit of Rs. 17.20 crore and takes partial forward cover to hedge the risk. The remaining is kept open. 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: Stretched

The company has term loan principal repayment obligations of Rs. 16 crore in FY24 and Rs. 20 crore in FY25 and the company has achieved gross cash accruals of Rs. 8.89 crores during 9MFY24. The gross cash accruals in FY24 are expected to barely meet the repayment obligations. However, the average fund-based utilization for past 12 months ending January-24 stood around 40 % which provides significant liquidity backup and non-fund-based limit utilization was 89% for the past twelve months ending January 2024. The company has additional liquidity in the form of cash balance of 10.07 crore as on December 31st, 2023.

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](#)

About the company and industry

Industry classification

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

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.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24(UA)
Total operating income	729.17	769.29	492.28
PBILDT	65.49	49.10	16.24
PAT	25.84	13.48	(7.99)
Overall gearing (times)	1.42	1.39	NA
Interest coverage (times)	3.57	2.87	1.23

A: Audited UA: Unaudited NA: Not Applicable; 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 (03-Oct-23)	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+ (03-Oct-23)	1)CARE A3+ (26-Sep-22)	-	-
3	Fund-based - LT-Cash Credit	LT	45.00	CARE BBB-; Stable	1)CARE BBB; Stable (03-Oct-23)	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 (03-Oct-23)	1)CARE BBB; Stable (26-Sep-22)	-	-
5	Non-fund-based - ST-BG/LC	ST	75.00	CARE A3	1)CARE A3+ (03-Oct-23)	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 detailsTo 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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