

Bharat Gears Limited (Revised)

September 19, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|----------------------------|---------------------------------|---------------------|---------------|
| Long Term Bank Facilities | 122.29 (Reduced from 138.59) | CARE BBB-; Stable | Reaffirmed |
| Short Term Bank Facilities | 102.71 (Enhanced from 86.41) | 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.

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. 800 crores 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 crores and continuing losses in upcoming quarters.
- 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.

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.

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

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 24% (PY 28%) of the turnover in FY24. 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 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.

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

The total operating income (TOI) of the company fell marginally by 13.91% to 662.22 crores in FY24 from 769.29 crores in FY23. Company's profitability was impacted due to subdued demand from the US and Europe, and reliance on monsoon conditions which resulted in moderation in operational performance. During Q1FY25(refers to period April 2024 to June 2024), the company reported sales of Rs 166.30 crore i.e. 2.68% decline compared to Q1FY24(170.89 crore). The profitability margins of BGL have declined from 6.38% in FY23 to 3.45% in FY24. The performance is expected to remain moderate in FY25 due to slowdown in the export market and improve in FY26.

Moderate financial risk profile

The overall gearing of the company slightly deteriorated from 1.39 times as on March 31, 2023 to 1.42 times as on March 31, 2024 owing to decline in the tangible net worth base from Rs. 119.79 crore as on March 31, 2023 to Rs. 109.94 crore as on March 31, 2024. The interest coverage ratio stood comfortable at 1.31 times in FY24 (PY 2.87 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.

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 50-65 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 80 days. 60%- 70% of purchase of raw material is LC based. The inventory period decreases slightly from 48 days in FY23 to 52 days in FY24. However, the operating cycle of the company deteriorated from 41 days in FY23 to 46 days in FY24 owing to increase in inventory days and collection period. The average utilization of the cash credit facility for past 12 months ending July 2024 remained moderately utilized at 51% and LC utilization stood at 71% 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 55.11% of the total operating income in FY24 vis-à-vis 55.88% of the TOI in FY23. 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. The company has a credit period to the tune of 80 days with its suppliers and the company gives credit period of 60-70 days to its customers.

High overhead cost

The company has high overheads with employee cost at 16-17% of sales. The manufacturing facility is located at Mumbra, Mumbai and Faridabad, Delhi leading to high overheads. Thus, any impact in revenue affects the economies in scale.

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 38% 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. 2.29 crore in FY24 vis-à-vis foreign exchange profit of Rs. 2.76 crore in FY23.

Liquidity: Adequate

The company has term loan repayment obligations of around 20 crore in FY25 and FY26 and cash accruals is expected to be sufficient to meet the same. The average fund-based utilization for past 14 months ending July 2024 stood at 51.25% and non-fund-based limit utilization was 70.82% for the past fourteen months ending July 2024. Also, cash flow from operating activities remained positive at Rs. 46.47 crore in FY24 (PY Rs. 36.45 crore). Further, current ratio stood at 1.23x (PY: 1.43x).

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Auto Components & Equipments](#)

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 84,62,000 Tonnes per annum having capacity utilization of 59,34,552 Tonnes per annum i.e. 70% in FY24. 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 (64% in FY24), 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 & Equipment |

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | Q1FY25(UA) |
|----------------------------|--------------------|--------------------|------------|
| Total operating income | 769.29 | 662.22 | 166.01 |
| PBILDT | 49.10 | 22.85 | 7.54 |
| PAT | 13.48 | -9.74 | -1.81 |
| Overall gearing (times) | 1.39 | 1.43 | NA |
| Interest coverage (times) | 2.87 | 1.31 | 1.71 |

A: Audited UA: Unaudited NA: Not Available; 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 and 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 | 72.29 | CARE BBB-; Stable |
| Non-fund-based - ST-BG/LC | | - | - | - | 75.00 | CARE A3 |
| Non-fund-based - ST-Proposed non fund based limits | | - | - | - | 27.71 | 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 2024-2025 | 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 |
| 1 | Fund-based - LT-Term Loan | LT | 72.29 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (08-Feb-24) 2)CARE BBB; Stable (03-Oct-23) | 1)CARE BBB; Stable (26-Sep-22) | - |
| 2 | Non-fund-based - ST-Proposed non fund-based limits | ST | 27.71 | CARE A3 | - | 1)CARE A3 (08-Feb-24) 2)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 (08-Feb-24) 2)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 (08-Feb-24) 2)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 (08-Feb-24) | 1)CARE A3+ (26-Sep-22) | - |

| | | | | | | | | |
|--|--|--|--|--|--|----------------------------------|--|--|
| | | | | | | 2)CARE A3+ (03-Oct- 23) | | |
|--|--|--|--|--|--|----------------------------------|--|--|

LT: Long term; ST: Short term; LT/ST: 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

| | |
|--|---|
| Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in Relationship Contact Ankur Sachdeva Senior Director CARE Ratings Limited Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in | Analytical Contacts Achin Nirwani Director CARE Ratings Limited Phone: 912267543566 E-mail: Achin.nirwani@careedge.in Arunava Paul Associate Director CARE Ratings Limited Phone: 912267543667 E-mail: arunava.paul@careedge.in Aman Goel Rating Analyst CARE Ratings Limited E-mail: Aman.goel@careedge.in |
|--|---|

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.

Disclaimer:

The ratings issued by CARE 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. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**