

Punjab Bevel Gears Limited

October 01, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	29.53 (Enhanced from 29.28)	CARE BBB; Stable	Reaffirmed
Short Term Bank Facilities	39.50 (Reduced from 39.75)	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Punjab Bevel Gears Limited (PBGL) take into consideration the stable operational performance along with comfortable capital structure and debt coverage indicators of the company. The ratings continue to derive strength from experienced promoters, long track record of operations, diversified revenue mix, and established relationship with its customers. The ratings, however, continue to remain constrained by the volatility in raw material prices, working capital intensive nature of business operations and cyclical nature of the automotive industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in total operating income above Rs. 350 crores with improvement in Profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 11.00% on sustained basis.
- Improvement in overall gearing below 0.50 times on sustained basis

Negative factors

- Decrease in TOI below Rs. 200 crores on a sustained basis with a decline in PBILDT margin below 7.50%.
- Sustained deterioration in the capital structure with overall gearing ratio deteriorating above 1.20x due to any debt funded capex, high reliance on working capital borrowings etc.
- Any further increase in inventory levels beyond the current levels resulting increase in working capital cycle above 140 days.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings' expectation that the company is likely to maintain its operating & financial risk profile over the medium term.

Detailed description of the key rating drivers:

Key strengths

Stable operational performance:

Total operating income (TOI) of PBGL witnessed slight moderation of ~2% during FY24 (refers to the period April 01 to March 31) and stood at Rs. 268.60 crores led by moderation in sales realisations for pinions, crown wheels & gears majorly on account of correction in commodity prices observed during the last fiscal year. Although, sales volumes have increased for crown wheels & pinions by ~8-11% while a slight dip of ~1% was observed in sale volumes of Gears.

The company was able to maintain the profitability margins with PBILDT & PAT margin of 8.99% & 3.20% respectively, as against 8.51% & 3.41% respectively during last fiscal year; exercising control over control over stores, spares & freight expense has helped the company in maintaining the profitability margins.

The company has achieved TOI of Rs. 64.72 crores with PBILDT margin of 9.29% during Q1FY25 (refers to the period April 01 to June 30). Care Ratings expects operational performance of the company to remain stable in medium term.

Comfortable capital structure and debt coverage indicators

The overall gearing of the company stood comfortable at 1.11x as on March 31, 2024, as against 0.96x as on previous year (PY) balance sheet date. Debt coverage indicators stand comfortable as depicted by the total debt to Gross cash accruals (GCA) of 5.12x in FY24 (PY: 4.12x), Total Debt/PBILDT of 3.36x in FY24 (PY:2.65x) and Term Debt/GCA of 1.88x in FY24 (PY: 1.41x). The

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

interest coverage ratio of the company stood at 3.98x for FY24 (PY:4.89x). Slight moderation was observed in debt coverage indicators of the company owing to increase in term debt for installation of plant and machineries for Ludhiana Plant. Care Ratings' expects capital structure to remain comfortable supported by accretion of profits to reserves, strengthening the capital structure of the company and no major debt funded capex planned.

Diversified revenue-mix and established relationship with the customers

PBGL has a healthy revenue-mix which primarily includes OEMs, export market and replacement market with the contribution of approximately 53%, 29% and 15% respectively to the total revenues during FY24. PBGL has established longstanding association with its key customers in the automotive and agricultural equipment segment. The diversification of revenues across markets provides relative insulation to PBGL to manage down-turn in any particular segment/ market.

Operational linkages with group concerns

PBGL procures raw material (forgings) and semi-finished products [machined components (forged blanks)] largely from its group companies' viz. Jai Gears Private Ltd (JGPL) and Jai Auto Private Ltd (JAPL). The total input procurement from above group concerns stood at approximately 57% of total raw material costs in FY24. Given the significant operational linkages within group concerns, the operational risk on account of dependence on outside suppliers for raw materials remains muted.

Experienced promoters and long track record of operations

PBGL was promoted in 1979 by Mr. Virinder Singh along with his son Mr. Arvinder Singh and other promoter-directors. PBGL has been in the business of manufacturing pinion, crown wheels, gears, axle shafts and other allied products since 1980. The company has been successful in establishing JAI brand name in the market. Over the years, PBGL has developed healthy customer-base across both domestic and overseas markets and has expanded scale of operations.

Key weaknesses**Working capital intensive nature of operations**

Being an auto ancillary player, the operations of the company are highly working capital intensive in nature marked by an average operating cycle of around 131 days as on March 31, 2024 (PY: 125 days). The company majorly supplies the auto component parts to some of the major Original equipment manufacturer (OEMs), therefore being the Tier-1 supplier; the company has lower bargaining power in comparison to its customers, thereby leading to higher receivable days. The average collection period stood at 84 days during FY24 (PY: 82 days). Further, the company is required to maintain adequate inventory of raw material for smooth running of its production processes. Therefore, the company has to maintain inventory of around 3 to 4 months. The creditor period stood at 83 days (PY: 66 days). The high working capital requirements were met largely through bank borrowings which resulted in average utilization of around ~88% of its sanctioned working capital limits for last twelve months period ended August 2024.

Going forward, company's ability to effectively manage its operating cycle & working capital requirements while keeping the capital structure at current levels, will remain a key monitorable.

Exposure to volatility in raw material prices

Raw-material expense is the major cost driver and any sharp volatility in raw material prices may negatively impact company's profitability. However, the company is able to pass on any hike in raw material costs to its customers (OEMs) with a time lag. This results in minimizing the impact of volatility in raw material prices on the profitability of the company. In replacement market and export market the revision is done in the subsequent orders, which makes the business of PBGL exposed to volatility in raw material prices. Further, the company is exposed to foreign currency risk for its export business as company derives around 28% of revenue from export market.

Cyclicality nature of the automotive industry

The automobile industry is cyclical in nature and automotive component suppliers' sales are directly linked to sales of auto OEMs. Furthermore, the auto-ancillary industry is 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 product portfolio of the company caters solely to automobile industry. The growth of the company is directly linked to the domestic automotive industry which, in turn, is cyclical and dependent on the growth of the economy.

Liquidity: Adequate

The liquidity of the company is characterized by an above unity current ratio since last 5 fiscal years. The repayment obligations of the company stood at Rs. 3.37 crore for FY25 as against the expected gross cash accruals of around Rs. 15 crores. Although, operating cycle of the company has remained higher at 131 days during FY24 on account of working capital intensive nature of operations; However, average working capital utilization of the company remained around 88% for last twelve months ending August 2024. The company would be incurring capex of around Rs. 7 crores during FY25 for installation of plant and machinery to increase in capacity that will be funded through long term debt & internal cash accruals.

Assumptions/Covenants: Not Applicable**Environment, social, and governance (ESG) risks:** Not Applicable**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](#)
[Short Term Instruments](#)
About the company and industry**Industry classification**

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

Incorporated in 1979, PBGL was promoted by Mr. Virinder Singh along with his son Mr. Arvinder Singh. The promoters have an experience of around 4 decades in automotive components industry. The company is engaged in manufacturing of gears and allied products for automotive, agriculture and industrial applications. The company manufactures products such as crown wheel & pinion, transmission gears, differential bevel gear, axle shafts and steering components. The products find application mainly in commercial vehicles, tractors and three wheelers.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	Q1FY25 (UA)
Total operating income	274.46	268.60	64.72
PBILDT	23.36	24.14	6.01
PAT	9.37	8.60	1.58
Overall gearing (times)	0.96	1.11	NA
Interest coverage (times)	4.89	3.98	3.93

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable**Any other information:** Not Applicable**Rating history for last three years:** Annexure-2**Detailed explanation of covenants of rated instrument / facility:** Annexure-3**Complexity level of instruments rated:** Annexure-4**Lender details:** Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	26.00	CARE BBB; Stable
Fund-based - LT-Term Loan	-	-	-	30/09/2025	3.53	CARE BBB; Stable
Fund-based - ST-Bill Discounting/ Bills Purchasing	-	-	-	-	5.00	CARE A3+
Fund-based - ST-EPC/PSC	-	-	-	-	30.00	CARE A3+
Non-fund-based - ST-Bank Guarantee	-	-	-	-	0.75	CARE A3+
Non-fund-based - ST-ILC/FLC	-	-	-	-	3.75	CARE A3+

Annexure-2: Rating history for last three years

S. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		T Y P E	Amount Out-standing (₹ 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	3.53	CARE BBB; Stable	-	1)CARE BBB; Stable (31-Oct-23)	1)CARE BBB; Stable (29-Sep-22)	1)CARE BBB-; Positive (05-Oct-21)
2	Fund-based - ST-EPC/PSC	ST	30.00	CARE A3+	-	1)CARE A3+ (31-Oct-23)	1)CARE A3+ (29-Sep-22)	1)CARE A3 (05-Oct-21)
3	Fund-based - LT-Cash Credit	LT	26.00	CARE BBB; Stable	-	1)CARE BBB; Stable (31-Oct-23)	1)CARE BBB; Stable (29-Sep-22)	1)CARE BBB-; Positive (05-Oct-21)
4	Non-fund-based - ST-Bank Guarantee	ST	0.75	CARE A3+	-	1)CARE A3+ (31-Oct-23)	1)CARE A3+ (29-Sep-22)	1)CARE A3 (05-Oct-21)
5	Non-fund-based - ST-ILC/FLC	ST	3.75	CARE A3+	-	1)CARE A3+ (31-Oct-23)	1)CARE A3+ (29-Sep-22)	1)CARE A3 (05-Oct-21)
6	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	5.00	CARE A3+	-	1)CARE A3+ (31-Oct-23)	1)CARE A3+ (29-Sep-22)	1)CARE A3 (05-Oct-21)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
4	Fund-based - ST-EPC/PSC	Simple
5	Non-fund-based - ST-Bank Guarantee	Simple
6	Non-fund-based - ST-ILC/FLC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

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

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About us:

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