RACL Geartech Limited

October 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	161.43 (Reduced from 161.58)	CARE A-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	166.50 (Enhanced from 135.50)	CARE A-; Stable / CARE A2+	LT rating reaffirmed and ST rating assigned
Short Term Bank Facilities	9.00 (Enhanced from 3.00)	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of RACL Geartech Limited 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 including some of the luxury/premium global OEMs, and geographically diversified revenue mix. Further, ratings also take comfort from comfortable operational performance with growing scale of operations during FY24 (refers to period from April 01, 2023 to March 31, 2024) and healthy profitability margins due to favourable geographic mix. However, the ratings remain constrained due to moderate financial risk profile owing to the discretionary capex undertaken by the company each year based on the nomination letters received from the global OEMs, raw material price volatility risk along with the presence of foreign exchange fluctuation risk, 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 the scale of operations beyond Rs.450 crores while maintaining the profitability margins and continued relationship with its key customers.
- Improvement in the capital structure leading to overall gearing of below 0.75x.

Negative factors

- Decline in scale of operations below Rs.225.00 crore with moderation in PBILDT margin below 18% on a sustained basis.
- Higher than envisaged capex thereby with increase in debt leading to total debt to PBILDT beyond the current levels.

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 key rating drivers:

Key strengths

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.

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

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 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 ~57% of total revenue in FY24 (PY: ~58%), 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 FY24 was ~15% of the total revenue thereby reducing dependence on any one customer.

Growing scale of operations alongside high profitability margins

The company achieved growth of ~15% in the total operating income, which stood at Rs.421.54 crore in FY24 (PY: Rs.365.56 crore). The PBILDT margin of the company remained almost stagnant and stood at 23.82% in FY24 (PY: 24.66%). The higher operating profit margins are owing to company's significant presence in the export market with sales to some of the premium customers. The PAT margin stood at 9.44% in FY24 (PY: 10.24%). The same moderated due to increase in interest expenses.
Q1FY25 (refers to period from April 01, 2023 to June 30, 2024) performance: The company reported y-o-y growth of ~18% in the total operating income which stood at Rs.105.80 crore in FY24 (PY: Rs.89.62 crore). This growth was primarily driven by higher volumes achieved in the domestic market. The growth in exports had moderated as the foreign OEMs had accumulated inventory due to uncertainties on the back of red sea crisis. Thus, the supply schedules were deferred to the subsequent quarters. Therefore, though the tooling cost was consumed by RACL as per the schedules received from foreign customers, however the same could not be converted into finished goods, thereby leading to moderation in the operating profit margin. The PBILDT margin moderated by 476 bps and stood at 21.12% in Q1FY25 (Q1FY24: 25.88%).

Key weaknesses

Moderate financial risk profile

The capital structure of the company remains moderate as reflected by overall gearing which stood at 1.41x as on March 31, 2024 (PY: 1.22x). The same further moderated owing to the additional term debt availed by the company of Rs.75.34 crore against the capital expenditure of Rs.105.75 crore. The same was owing to the project TITAN started by the company whereby it received nomination letter from one of the premium German car manufacturers as a Tier-1 supplier for supply of parking lock mechanism. Also, the company received an order for pedal assisted electric bicycles from some big German player. Further, the utilization of working capital limits also stood higher at Rs.127.40 crore as on March 31, 2024 (PY: Rs.78.75 crore).
The debt coverage indicators also stood moderate with interest coverage ratio and total debt to GCA of 4.25x and 4.26x respectively in FY24 (PY: 4.36x and 3.50x respectively).

Foreign Exchange fluctuation and raw material price risk

The company derives its revenue majorly through exports which was ~74% of total revenue in FY24 (PY: 74%). 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 FY24, the company reported net gain of Rs.4.26 crore due to foreign currency fluctuation (PY: gain of Rs.7.35 crore). Further, the company's main raw material includes 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 74% 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 requirement. The average working capital utilization remained ~90% during trailing 12-month period ending July 31, 2024.

Industry Prospects

The global automotive market, valued at USD 29.09 billion in 2023, is projected to grow to approximately USD 42.86 billion by 2032, reflecting a compound annual growth rate (CAGR) of 4.4%. The Asia-Pacific region leads with a market size of USD 12.52 billion, driven by rising demands for high engine performance and increasing disposable incomes. Europe and North America also contribute significantly, with growth fuelled by advanced technologies and improved facilities. Despite challenges like geopolitical tensions impacting the supply chain and increasing costs, the industry remains resilient, buoyed by technological advancements and heightened demand for high-end vehicle features.

Liquidity: Adequate
Liquidity position of the company is adequate as reflected by projected gross cash accruals of ~Rs.83.84 crore in FY25 against scheduled repayments of Rs.50.47 crore. Further, the average utilization of working capital borrowings stood ~90% for the trailing 12 months ended July 31, 2024. RACL is planning to incur capex of Rs.37.06 crore in FY25 pertaining to capacity expansion which is to be funded with term loan and internal accruals in the ratio of 5:2.

Environment, social, and governance (ESG) risks

Environment: Reduction in emissions by lowering energy use & switching to renewable energy with RACL aiming to source 40% electricity from Solar energy by March 2024, The company also has an effluent treatment plant with capacity to treat the entire waste water that is generated.
Social: Company has formulated a Corporate Social Responsibility (CSR) policy which encompasses its philosophy and guides its sustained efforts for supporting socially useful programs for welfare and sustainable development of the weaker sections of the society.
Governance: The Company has been upholding fair and ethical business and corporate practices and transparency in its dealings, laying emphasis on scrupulous regulatory compliances. The Company is in compliance with the requirements stipulated under various applicable provisions of the Listing Regulations.

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

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

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

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	365.56	421.54	105.80
PBILDT	90.14	100.43	22.34
PAT	37.45	39.81	6.26
Overall gearing (times)	1.22	1.41	NA
Interest coverage (times)	4.36	4.25	3.22

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

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	March, 2027	161.43	CARE A-; Stable
Fund-based - LT/ ST-Working Capital Limits		-	-	-	166.50	CARE A-; Stable / CARE A2+
Non-fund-based - ST-BG/LC		-	-	-	9.00	CARE A2+

Annexure-2: Rating history for 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	161.43	CARE A-; Stable	-	1)CARE A-; Stable (03-Oct-23)	1)CARE A-; Stable (23-Sep-22)	1)CARE A-; Stable (27-Oct-21)
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST	166.50	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable (03-Oct-23)	1)CARE A-; Stable (23-Sep-22)	1)CARE A-; Stable (27-Oct-21)
3	Non-fund-based - ST-BG/LC	ST	9.00	CARE A2+	-	1)CARE A2+ (03-Oct-23)	1)CARE A2 (23-Sep-22)	1)CARE A2 (27-Oct-21)

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

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: NA

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-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 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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