IGW India Technologies Private Limited

November 05, 2024

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	92.21 (Reduced from 119.32)	CARE A-; Stable	Downgraded from CARE A; Stable
Long-term / Short-term bank facilities	62.00	CARE A-; Stable / CARE A2+	Downgraded from CARE A; Stable / CARE A1

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to the bank facilities of IGW India Technologies Private Limited (ITPL) takes into account continued deterioration in the company's return indicators and weaker than expected operational performance in CY23 (for 9 months, i.e., April 2023-December 2023) and 9MCY24 (CY refers to January 01 to December 31) impacting cash accrual levels. This coupled with ITPL's ongoing capital expenditure (capex) plans and sizeable repayment obligations resulted in weakening of the debt service coverage indicators. However, comfort is drawn from unutilised working capital limits and support from parent, IG Watteeuw International NV (IGW; group company of Belgium-based BMT Group). CARE Ratings Limited (CARE Ratings) also takes note of change in accounting period from FY (April 01 to March 31) to CY (January 01 to December 31) post FY23.

Ratings continue to derive strength from ITPL's established track record of operations, experienced management, diversified product portfolio and reputed customer base. Ratings also factor in ITPL's comfortable capital structure and moderate debt coverage indicators.

However, rating strengths continue to remain constrained due to project risk associated with ongoing capex plans, profitability susceptible to raw material price volatility and foreign exchange rates, and presence in highly fragmented and competitive industry.

CARE Ratings has withdrawn the rating assigned to one of ITPL's bank facilities with immediate effect, as the company has repaid the term loan in full and there is no amount outstanding under the loan as on date.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations with a total operating income (TOI) above ₹600 crore.
- Improvement in return on capital employed (ROCE) above 12%.
- Improvement in debt protection metrics with total debt to gross cash accruals (TD/GCA) and total debt to profit before interest, lease rentals, depreciation and taxation (PBILDT) of lower than 2.25x and 1.75x, respectively.

Negative factors

- Decline in TOI to below ₹350 crore with PBILDT margin below 12% on a sustained basis.
- Deterioration in total debt/PBILDT to 3x or above on a sustained basis.
- Any weakening of parent's credit profile or weakening of linkages with the BMT group.

Analytical approach: Standalone; factoring in strength derived from ITPL's strong linkages with the BMT Group.

Outlook: Stable

The stable outlook reflects CARE Ratings' expectation that the company will continue to benefit from its established presence in the manufacturing of precision products, long-standing relationship with key customers, and support from BMT Group.

Detailed description of key rating drivers:

Key strengths

Established track record of operations with strong parentage

With over two decades of operations, ITPL has established its position in the manufacturing of gears and precision transmission line components. Since its acquisition in 2015 by Belgium-based BMT group (which has a strong global presence in gear manufacturing) through its subsidiary IGW, ITPL received technological and financial support from its parent company.

The BMT Group has appointed Vikas Dudeja as Managing Director, and Johan Octaaf R De Lille and Jean Christophe Seynaeve as Directors, who jointly manage strategic decision-making for ITPL.

The BMT group has been supporting ITPL by infusion of funds in the form of equity and external commercial borrowings (ECB). BMT Group extended ECBs of €3 million in 2018, ECBs of €1.2 million in 2019, equity of €5 million in 2021 and ECBs of €1.5 million in 2024 to fund ITPL's capex plans.

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

Diversified product portfolio
ITPL offers a diverse range of products catering to various sectors including construction, agriculture, hydraulics, railways among others. The construction equipment sector is ITPL's largest revenue contributor, accounting for ~45% in 9MCY24 (refers to January 01 to September 30), followed by the agriculture sector.
The portfolio includes a diverse array of products such as gears, shafts, gear box and sub-assembly, among others. Gears contribute to ~45-50% of TOI. By offering a diversified product portfolio across multiple sectors, ITPL reduces exposure to sector concentration risks, minimising the impact of a downturn in a particular industry.

Geographically diversified revenue profile and long-term association with reputed clientele
ITPL derives revenue from both domestic (~60-65% of TOI) and exports market (~35-40% of TOI). However, the customer base remains concentrated with top five clients contributing ~65-70% of sales.
ITPL has developed long-standing and well-established relationships with its clients in domestic and export markets, leading to repeat orders. Over the years, the company gradually expanded its customer base, which now includes some of the most reputed and large-scale players in the industry. The company's long-term association with reputed clients mitigates counterparty credit risk.

Comfortable capital structure and moderate debt coverage indicators
ITPL's capital structure improved and continued to remain comfortable with an overall gearing of 0.76x as on December 31, 2023 (against 0.81x as on March 31, 2023) owing to scheduled repayment of term loans and nil utilisation of working capital limits as on balance sheet date. Despite debt-funded capex, capital structure is expected to remain comfortable with overall gearing remaining below unity in the medium term.
Debt coverage indicators stood moderate with TD/GCA and interest coverage of 2.84x and 5.10x respectively during April 01, 2023 to December 31, 2023 (audited financials available for 9 months due to change in accounting period).

Key weaknesses

Moderate scale of operations with lower-than-expected operational performance resulting in decline in return indicators
ITPL's scale of operations had reflected a growing trend from FY20 to FY23 driven by higher demand from existing customers, increased sales volume, better exports, and addition of new customers. However, reported TOI was lower-than-expected in CY23 (for 9 months) and stood moderate at ₹301.78 crore primarily due to subdued demand from the agriculture segment. Furthermore, ITPL booked TOI of ₹295.55 crore in 9MCY24. Overall performance is expected to remain subdued in CY24 due to overall lower demand from end-user industries across geographies, especially overseas markets.
In the last few years, ITPL made sizeable investments towards capacity enhancement, modernisation and efficiency improvements. However, anticipated benefits have not yet fully materialised, which is reflected by declining fixed asset turnover ratio and return indicators such as ROCE and return on net worth (RONW). Over the last few years, ROCE declined from ~12% to ~6%.

Moderate profitability
The PBILDT margin continued to remain moderate at 13.82% in CY23 (for 9 months) and 14.17% in 9MCY24. Going forward, profitability is expected to improve gradually owing to a change in sales mix and cost cutting initiatives.

Ongoing capex plans
The company is in the process of enhancing its capacity and modernisation of its existing facility. Capex of ~₹30-35 crore is expected to be incurred in CY24, which will be funded by debt of ~₹21 crore and remaining through internal accruals/unutilised limits/working capital changes. Further, ITPL is expected to incur capex of ₹25-30 crore in CY25 and CY26 each to match market demand.

Susceptibility of profitability margins to fluctuations in raw material prices and forex rates
The key raw materials for ITPL include various grades of alloy steel, aluminium and brass bars, primarily sourced from the domestic market. Their prices are volatile, exposing ITPL's profitability to fluctuations in raw material costs, which account for ~40-50% of total cost of sales. Also, ITPL is exposed to fluctuations in forex rates as the company derives ~35-40% of revenues from export market, against which imports are ~5-6% of the total raw material purchased. However, the company's ECB repayments in foreign currency provides a natural hedge to some extent. ITPL does not engage in hedging contracts for exchange rate fluctuations.

Presence in highly fragmented and competitive industry
ITPL operates in a highly fragmented industry, marked by many unorganised players and presence of large, well-established companies, leading to intense competition. The industry is characterised by low entry barriers and limited product differentiation due to minimal technological input and the availability of standardised production machinery. However, new entrants face challenges in securing preferred vendor status with OEMs.

Liquidity: Adequate

The liquidity position is marked by annual GCA of ₹45-50 crore against annual repayment obligation of ₹35-40 crore over CY24-CY26. As on September 30, 2024, the company also had free cash and bank balance of ₹5.97 crore. Cash flow from operations stood healthy at ~₹50 crore and current ratio stood satisfactory at 1.43x as on December 31, 2023. Any adverse changes in ITPL's profitability will impact the cash accruals and shall remain key rating monitorable, given ITPL's sizeable debt repayment obligations and capex requirements. However, comfort is derived from ITPL's unutilised working capital limits and demonstrated support from BMT Group.

The average maximum and average utilisation of working capital limits stood low at 17% and 13% respectively for 12-months ended September 30, 2024. Working capital requirements are majorly funded through internal accruals and credit from suppliers, which resulted in low utilisation of working capital limits.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-Financial Sector Entities
Rating Outlook and Rating Watch
Manufacturing Companies
Withdrawal Policy
Auto Components & Equipments
Short Term Instruments
Rating Methodology - Parent Sub JV Group

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Industrial Products	Castings & Forgings

ITPL (formerly known as Involute Technologies Private Limited) was incorporated in 1999 by Anil Vinayak Somalwar. The company was later acquired by the BMT group in 2015. The company is engaged in the manufacturing of gears, shafts, flanges, prismatic machining components, precision auto and industrial transmission products for tractors, heavy and off-road vehicles. ITPL has three manufacturing facilities located in Khed, Pune.

Brief Financials (₹ crore)	March 31, 2023 (A)	December 31, 2023 (A)*	9MCY24 (Prov.)
Total operating income	409.35	301.78	295.55
PBILDT	52.05	41.69	41.87
PAT	13.27	3.79	NA
Overall gearing (times)	0.81	0.76	NA
Interest coverage (times)	5.45	5.10	6.21

A: Audited; Prov.: Provisional; NA: Not Available; Note: these are latest available financial results

*ITPL has changed its accounting period from financial year to calendar year in 2023, therefore CY23 figures reflect performance for nine months i.e., April 01, 2023 to December 31, 2023).

Status of non-cooperation with previous CRA: Nil

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		-	-	30-06-2027	92.21	CARE A-; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	50.00	CARE A-; Stable / CARE A2+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	12.00	CARE A-; Stable / 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	92.21	CARE A-; Stable	-	1)CARE A; Stable (03-Nov-23)	1)CARE A; Stable (21-Oct-22)	1)CARE A; Stable (22-Sep-21) 2)CARE A; Stable (02-Aug-21) 3)CARE A-; Stable (08-Apr-21)
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	50.00	CARE A-; Stable / CARE A2+	-	1)CARE A; Stable / CARE A1 (03-Nov-23)	1)CARE A; Stable / CARE A1 (21-Oct-22)	1)CARE A; Stable / CARE A1 (22-Sep-21) 2)CARE A; Stable / CARE A2+ (02-Aug-21) 3)CARE A-; Stable / CARE A2+ (08-Apr-21)
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	12.00	CARE A-; Stable / CARE A2+	-	1)CARE A; Stable / CARE A1 (03-Nov-23)	1)CARE A; Stable / CARE A1 (21-Oct-22)	1)CARE A1 (22-Sep-21) 2)CARE A2+ (02-Aug-21) 3)CARE A2+ (08-Apr-21)

LT: Long term; LT/ST: Long term/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-Term Loan	Simple
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	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:
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.

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