

**IGW India Technologies Private Limited  
(Erstwhile Involute Technologies Private Limited)**

September 22, 2021

**Ratings**

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	16.41	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	50.00	CARE A; Stable / CARE A1 (Single A; Outlook: Stable/ A One)	Revised from CARE A; Stable / CARE A2+ (Single A; Outlook: Stable / A Two Plus)
Short Term Bank Facilities	10.00	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
<b>Total Bank Facilities</b>	<b>76.41</b> <b>(Rs. Seventy-Six Crore and Forty-One Lakhs Only)</b>		

*\*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The revision in the short-term bank facilities of IGW India Technologies Private Limited (ITPL: erstwhile Involute Technologies Private Limited) is on account of improvement in liquidity position of the company resulted by infusion of funds from parent and improved cash flow from operations.

The ratings continue to derive strength from ITPL's established track record in manufacturing precision products, demonstrated support by the parent company- IG Watteeuw International NV (IGW, a group company of the Belgium-based BMT Group) in the form of financial and technological support, and geographically diversified & reputed customer base. Further, the ratings continue to derive support from moderate albeit growing scale of operations, moderate profitability margins, and comfortable solvency position supported by equity infusion by the parent during FY21 (refers to the period from April 1 to March 31).

The rating strengths are, however, constrained by the cyclical nature of the industry, on-going and planned capital expenditure, risks associated with volatility in raw material prices and foreign exchange rates, and competition from organized and unorganized companies.

**Ratings Sensitivity**
**Positive Factors- Factors that could lead to positive rating action/upgrade.**

- Substantial and sustained increase in scale of operations along with improvement in PBILDT margins above 16-18% on a sustained basis.
- Improvement in the capital structure with debt to equity and overall gearing below 0.30x and 0.40x respectively
- Improvement in the debt protection matrices with total debt/Gross Cash Accruals and total debt to PBILDT of lower than 2.25x and 1.75x respectively.

**Negative Factor- Factors that could lead to negative rating action/downgrade.**

- Sustained deterioration in PBILDT margin below 12-13%
- Any un- envisaged debt funded capital expenditure deteriorating the debt to equity and overall gearing beyond 0.80x and 1.20x, respectively.
- Any weakening of parent's credit profile or weakening of linkages with the BMT group.

**Detailed description of the key rating drivers**
**Key Rating Strengths**
**Financial risk profile marked by growth in scale of operations, healthy profitability margins and comfortable solvency position**

Despite COVID-19 led disruptions and lockdown for almost 2 months, the company was able to register a y-o-y growth of around 17% in FY21 (Provisional). The scale of operations, though increased, remained modest at Rs.254.14 crore in FY21 (Provisional) as against Rs.216.55 crore in FY20. The growth was attributable to the pick-up in demand from tractor segment. The company caters to agriculture (tractor), railways (metro), Infrastructure and Hydraulics sector. Out of these, contribution from tractor sales to the revenue is around 50%.

The company registered significant improvement in profitability as compared to FY20. The Profit before Interest, Lease, Depreciation and Tax (PBILDT) margin improved to 13.28% in FY21 (Provisional) from 9.84% in FY20 owing to the cost conservation methods adopted by the company. Further, with improvement in operational levers and reduction in fixed capital charges, the company registered net profit of Rs.3.17 crore in FY21 (Provisional) as against the loss of Rs.9.37 crore.

The BMT Group has infused funds in the form of equity of around Rs.43 crore during FY21. Increase in net-worth along with decline in total debt, resulted in significant improvement in capital structure as reflected by overall gearing of 0.56x as on March 31, 2021 (Provisional) (P.Y. 1.20x).

With improvement in profitability and decline in debt levels, the debt coverage indicators of the company also improved. The PBILDT Interest Coverage ratio improved to 5.02x as at the end of FY21 (Provisional) from 2.39x as at the end of FY20 while total debt to GCA improved to 2.72x as at the end of FY21 (Provisional) from 7.74x as at the end of FY20.

Further, with the continuous order flow, the company has been able to register a turnover of around Rs.90 crore with PBILDT margin of around 15% in Q1FY22. The improvement in margin is owing to the increased contribution of export sales which fetches higher margin. Moreover, the company has registered a turnover of around Rs.155 crore in 5MFY22 (refers to the period from April 01 to August 31).

#### **Established track record in manufacturing precision products catering to varied industries.**

The company has a track record of more than a decade and has established itself in the field of manufacturing gears and precision transmission line components. The promoter & founder, Mr. Anil Vinayak Somalwar, is a mechanical engineer with an experience of more than 25 years in manufacturing of auto components. Post the change in the shareholding, the BMT Group is represented through Mr. Vikas Dudeja in the capacity of Managing Director. He has been in India for over a decade, assisting European companies in setting up facilities in India. The promoters are backed by an experienced team who currently head various divisions in the company. Being in the industry for so long has helped the promoters in gaining adequate acumen about the industry.

#### **Strong parentage, parent company's active involvement in operations, demonstrated financial assistance and technological support.**

Post the acquisition of controlling stake, the BMT Group has appointed Mr. Vikas Dudeja as the Managing Director, who is looking over the integration of ITPL into the group's global strategy. BMT group has a strong global presence in the field and ITPL is expected to benefit from its expertise in the gears business and is expected to benefit the company to diversify and increase its scale of operations. The group has pumped in ECBs of EUR 3 million during FY18 and EUR 1.2 million during FY19. Further during FY21 the BMT group has infused EUR 5 million as equity to support the capital expenditure towards developing and manufacturing new products catering to newly acquired customers. The group has seen a moderation in profitability and improvement in leverage levels of the BMT Group during the last 3 years ended CY20.

*The performance of the BMT group amidst the slowdown will remain the key rating monitorable.*

#### **Moderately diversified customer base and long-term association with reputed clientele**

The company has a well-diversified customer base with revenues derived from both the domestic (~65-70% of TOI) and exports market (~30-35% of TOI). In the export market, the company caters to companies in USA, Italy, Japan, Switzerland, UK, China, Hong Kong, and Turkey. ITPL's clients include reputed players from industries such as construction and mining equipment, farm equipment etc. The top 10 customers accounts for ~70% of TOI. The company's clientele includes reputed players like John Deere India Private Limited, Caterpillar India Private Limited, I. T. International Transmissions - S.A, (Switzerland), Mahindra & Mahindra Limited (*rated CARE AAA; Stable/ CARE A1+ dated December 23, 2020*), SAME Deutz-Fahr India Private Limited, amongst others. ITPL has been receiving repeated orders year on year from these clients, aided by its long-standing association with these reputed clienteles.

*The ability of the company to increase contribution from higher margin products/customers thereby favourably affecting the blended profitability will be the key rating monitorable.*

#### **Key Rating Weakness**

##### ***Debt funded capital expenditure.***

The company for the last four years has been investing in setting up client specific assembly lines and increasing product portfolio. The capital expenditure is funded through internal accruals, funding from parent company, and bank borrowings. The company has envisaged capex to be in the range of Rs.100-120 crore for upgradation and expansion in next three years. However, the said capex is controllable and will depend on profit generated by the company during the said period and funded through internal accruals.

*Timely completion of the capex without cost overrun and deriving envisaged benefits from the same is critical from the credit rating perspective.*

### ***Risk associated with volatility in raw material price and foreign exchange fluctuation***

The key raw material of ITPL comprises of different grades of alloy steel, aluminium and brass bars which is largely procured from domestic market. ITPL operates in an industry where the raw material cost is one of the major cost drivers (constituting about 40-50% of the total cost of sales and one of the major components to impact operating margin. The volatility in commodity prices can significantly affect ITPL's raw material costs and in turn, profitability. Inability to compensate for or pass on such price increases to customers could have an adverse impact on ITPL's profitability and financial risk profile.

ITPL derives ~30% of its revenues from exports and its profitability is thus exposed to fluctuations in foreign exchange rates. Against the exports, its imports are ~5% - 6% of the total raw material purchased. The export revenue is thus exposed to any adverse changes in the currency rates. The company currently does not have any hedging policy.

### ***Competition from organized and unorganized companies***

ITPL manufactures products and operates in an industry which comprises of several players in the unorganized sector and is also characterized by high degree of fragmentation. There also exist big sized companies resulting in intense competition in the industry. The industry is characterized by low entry barriers and low level of product differentiation due to minimal technological inputs and availability of standardized machinery for production. However, it is challenging for new entrants to achieve preferred vendor status with OEMs.

### ***Liquidity: Adequate***

The liquidity position of the company has improved owing to the equity infusion by the parent and improved cash flows from operations. Furthermore, the company has availed Working Capital Term Loan (WCTL) under Emergency Credit Line Guarantee Scheme (ECLGS) in April 2021, which has resulted in lower utilization of working capital borrowings and subsequently in reducing interest cost. This average utilization for last 12 months ended July 2021 stood at around 27%. Moreover, the company has not utilized its working capital borrowings from March 2021 to July 2021.

Further, liquidity is characterized by sufficient cushion in accruals vis-à-vis repayment obligations. GCA is expected to be in the range of Rs.32 crore-Rs35 crores while cash flow from operations is expected to be in the range of Rs.40-45 crore as against the repayment obligations of around Rs.15 crore in FY22. This leaves sufficient headroom for internal funds to contribute to the capital expenditures. However, going forward, the repayment obligations are expected to increase and be in the range of Rs.18-20 crore at least for the next two years and against which company is expected to generate sufficient GCA and cash flow from operations to the tune of nearly Rs.50 crore for upcoming years. ITPL had free cash and cash equivalent to the tune of Rs 8.29 crore as on March 31, 2021. In addition, the unutilized bank lines provide additional liquidity cushion.

### **Analytical Approach – Standalone**

Although standalone financials of ITPL have been considered, the ratings derive strength from being part of BMT Group.

### **Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch'](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Auto Ancillary Companies](#)

[Rating Methodology: Manufacturing Companies](#)

[Liquidity Analysis of Non-Financial Entities](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

### **Company Background**

ITPL was incorporated by Mr A V Somalwar in 1999. ITPL initially started as a manufacturing unit of auto components for Bajaj Auto Limited (BAL). In 2003-04, ITPL diversified its customer base in both the domestic and overseas market. The company is currently engaged in manufacturing and sale of gears, shafts, flanges, prismatic machining components, precision auto and industrial transmission products for tractors, heavy and off-road vehicles. The company manufactures around 1,000 variants of gears which are customized based on the client specifications. Currently BMT group holds ~100% stake in Involute Technologies Private Limited.

<b>Brief Financials (Rs. crore)</b>	<b>FY20 (A)</b>	<b>FY21 (P)</b>	<b>Q1FY22 (UA)</b>
Total operating income	216.55	254.14	89.60
PBILDT	21.32	33.74	13.99
PAT	(9.37)	3.17	5.55
Overall gearing (times)	1.20	0.59	0.63
Interest coverage (times)	2.39	5.02	13.85

A-Audited; P-Provisional; UA-Un-audited

Status of non-cooperation with previous CRA – 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

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	August 2024	16.41	CARE A; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	50.00	CARE A; Stable / CARE A1
Non-fund-based - ST-Letter of credit	-	-	-	10.00	CARE A1

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	16.41	CARE A; Stable	1)CARE A; Stable (02-Aug-21) 2)CARE A; Stable (08-Apr-21)	1)CARE A-; Stable (07-Apr-20)	-	1)CARE A; Stable (29-Mar-19)
2.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	50.00	CARE A; Stable / CARE A1	1)CARE A; Stable / CARE A2+ (02-Aug-21) 2)CARE A; Stable / CARE A2+ (08-Apr-21)	1)CARE A-; Stable / CARE A2+ (07-Apr-20)	-	1)CARE A; Stable / CARE A2+ (29-Mar-19)
3.	Non-fund-based - ST-Letter of credit	ST	10.00	CARE A1	1)CARE A2+ (02-Aug-21) 2)CARE A2+ (08-Apr-21)	1)CARE A2+ (07-Apr-20)	-	1)CARE A2+ (29-Mar-19)

#### Annexure-3: Detailed explanation of covenants of the rated facilities

Name of the Instrument	Detailed explanation
<b>A. Financial covenants</b>	
i. Net Debt / EBITDA	<= 3x for all years
ii. TOL/Adj. TNW	Not to exceed 2.5x
iii. BMT group shareholding	Falling 74% of the borrower during currency of the bank loan
iv. DSCR	>=1.25x during currency of bank loan
<b>B. Non-financial covenants</b>	
I Submission of Annual and Quarterly financial Statements	Quarterly updates of financial performance to be submitted to the bank within 30 days of the quarter end

#### Annexure 4: Complexity level of various instruments rated for this Company.

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-Letter of credit	Simple

**Annexure 5: Bank Lender Details**

[Click here to view Bank Lender Details](#)

Classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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