Bharat Gears Limited (Revised)

September 26, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	144.79 (Enhanced from 79.16)	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Short Term Bank Facilities	80.21 (Enhanced from 0.84)	CARE A3+ (A Three Plus)	Assigned
Total Bank Facilities	**225.00 (₹ Two Hundred Twenty-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed 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, BGL's entrenched market position in the automotive gears and component industry, having strong and reputed clientele base albeit high customer concentration risk, comprehensive product portfolio albeit higher dependency on flagship product along with strong manufacturing set up, wide dealership network along with upgradation of manufacturing processes and technological capabilities and above average order book position. The ratings are also supported by healthy revenue growth, and improved profitability margins leading to higher cash accruals over the past three years (FY20-FY22). CARE Ratings expects uptick in the revenue growth going forward, backed by healthy demand for its gears and automotive components on the back of higher demand from the tractor and auto industry. Further, the ratings also favorably factor in the moderate financial risk profile characterized by moderate capital structure along with comfortable debt coverage indicators and adequate liquidity profile maintained by the company.

The above rating strengths, however continue to be tempered by moderate profitability margins being susceptible to volatility in raw material prices, working capital intensive nature of operations, inherent cyclicality of the auto component and end-user industry and foreign exchange fluctuation risk.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Healthy increase in revenue to around Rs. 900 crore on the back of healthy order book position coupled with having operating profitability margin being maintained at around 12% or above leading to higher cash accruals
- Improvement in capital structure below unity levels along with improvement in debt coverage indicators
- Improvement in working capital cycle

Negative factors - Factors that could lead to negative rating action/downgrade:

- Significant underachievement in terms of revenues and operating profitability margins leading to underachievement in cash accruals as compared to envisaged levels
- 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.

Detailed description of the key rating drivers

Key rating strengths

Well-experienced promoters with long track record in the industry

BPL is currently managed by Mr. Surinder Paul Kanwar (Chairman and Managing Director), who hold rich experience of more than 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.

Entrenched market 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 40% of the turnover. Thus, customer

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

concentration risk prevails. However, BGL has a well-established and reputed customer base in the realm of tractors, utility vehicles, commercial vehicles, and construction equipment industries in India and abroad. The company has established relationship with Original Equipment Manufacturers (OEMs) such as John Deere India Pvt. Ltd., Carraro India Pvt Ltd., Spicer India Limited, JCB India Ltd., Eaton Corporation, etc. Further, the impressive and reputed client base enjoying healthy credit worthiness ensures timely payments and lends comfort to the revenue realisation. The company has been associated with these customers from many years and receives regular orders from them as the components supplied by the company is critical for the product manufactured by various clients.

Comprehensive product portfolio albeit higher dependency on flagship product
BGL has a comprehensive product portfolio comprises of gears, automotive components and furnaces, catering to diverse customer base in the realm of tractors, utility vehicles, commercial vehicles, and construction equipment industries. The company derives around 68% of revenues from sale of products for agricultural machinery, followed by 12% revenues derived from construction equipment segment, 10% of revenues from sale of products under commercial vehicle segment while remaining 10% from other segments. However, the product portfolio of the company is skewed to one product i.e. gears (with product concentration of 95% in FY22), which though remains a concern from credit perspective, however comfort can be derived from the fact that it caters to agricultural sector which in itself is a diverse and vast sector with BGL catering to farm auto equipment and largely dependent on rural demand. Besides, the company derives around 58% of revenues from sale of products in India while remaining 42% of revenues is derived from exports. Furthermore, BGL supplies to renowned customers having healthy credit profile and credit worthiness wherein the counterparty credit risk is mitigated to an extent.

Strong manufacturing setup with extensive distribution network
BGL has strong manufacturing set up and infrastructure facilities with three manufacturing plants located in the vicinity of OEMs, catering to auto industry. The company has state-of-the-art manufacturing facilities located at three prominent places – Faridabad near Delhi (contributing to 55% of revenue generation); remaining is contributed from manufacturing plants located at Mumbra near Mumbai and Satara in Maharashtra, which are in close proximity to the vendors and customers and suppliers and have approximate installed capacity of 86,91,712 Numbers per annum in FY22 for a given product mix. BGL's dealer network comprises 76 dealers in FY22 across 23 states covering the entire domestic geography and 3 sales offices at Delhi, Mumbai, and Kolkata. Maharashtra tops the charts as being the state with most number of dealerships.

Growth in scale of operations coupled with above average order book position
The scale of operations of the company is moderate with total operating income in the range of Rs. 465.65 crore to Rs. 729.17 crore during the period FY20 to FY22. Further, the same has grown y-o-y at a CAGR (Compounded Annual Growth Rate) of 25.14% during past three years ending March 2022. Backed by gradual revival of market conditions leading to significant recovery of the market segments catered to by the company and robust demand from OEMs post easing of lockdown restrictions, the company reported total sales of Rs. 729.17 crore in FY22 vis-à-vis Rs. 501.03 crore during FY21, thereby reflecting sales growth of 45.53% in FY22 over FY21. During Q1FY23 (refers to period April 2022 to June 2022), the company reported sales of Rs 186.00 crore. Further, BGL has current in hand orders amounting to Rs. 157.00 crore expected to be executed by September 2022, and basis the same, going forward, CARE expects the momentum in revenue growth to sustain on the back of strong demand anticipated from industry.

Moderate capital structure and comfortable debt protection metrics
BGL's capital structure improved from 2.28x as on March 31, 2021 to 1.42 times as on March 31, 2022 and remained at moderate levels owing to reduction in the debt level on the back of repayment of term loans along with improvement in the tangible net worth base from Rs. 71.76 crore as on March 31, 2021 to Rs. 107.38 crore as on March 31, 2022 backed by accretion of profits to reserves.
The debt coverage indicators marked by total debt to GCA and interest coverage ratio improved during past three years ending March 31, 2022. Total debt to GCA remained comfortable at 3.02x as on March 31, 2022 vis-à-vis 11.56x as on March 31, 2021 owing to reduction in debt level along with improvement in gross cash accruals. Furthermore, interest coverage ratio remained comfortable and improved to 3.57x in FY22 from 1.49x in FY21 on account of lower interest cost as a result of refinancing the high cost debt and improvement in operating profitability. With no major capex envisaged, debt protection metrics is expected to remain comfortable over the medium term.

Key rating weaknesses
Moderate profit margins susceptible to volatility in raw material prices
The profitability margins of BGL though have improved on y-o-y and stood at 4.56% to 8.98% during FY20 to FY22; yet it remained at moderate levels. The PBILDT margin of the company stood at 8.98% in FY22 vis-à-vis 6.76% in FY21. The company, after reporting net losses in FY20 and FY21, reported net profit of Rs. 25.84 crore in FY22 with PAT margin of 3.54% in FY22 owing to the improvement in the PBILDT margin along with lower interest and depreciation expense. The profitability position of BGL has seen improvement owing to the various measures adopted by BGL to improve the profitability viz. modernization of existing facilities to improve the overall operating efficiency, improving quality of products, deeper penetration in the market to cater to the demands of the OEMs and undertaking of multiple cost reduction exercises across the organization.
The operations of BGL are raw material intensive in nature with the raw material cost constituting 55.05% of the total operating income in FY22. With global steel prices highly volatile in nature and susceptible to speculative trading and other factors like any adverse movement in the raw material prices like steel, LPG, propane, natural gas, etc. exposes BGL's margins to price volatility. Besides, absence of long-term supply contracts with suppliers subjects the company to risks such as price volatility caused by

various factors such as commodity market fluctuations, currency fluctuations, climatic and environmental conditions, production and transportation cost, changes in domestic as well as international government policies, and regulatory and trade sanctions. However, BGL is able to pass on the increase in prices of steel and other raw materials to their customers to an extent albeit with a lag of around three months and therefore the profitability margins remain susceptible to volatile raw material prices.

Working capital intensive nature of operations
The operations of BGL remained moderately working capital-intensive owing to funds being utilized towards debtors and inventory. With faster inventory off-take, the inventory period reduced from 67 days in FY21 to 50 days in FY22. In FY22, the collection period has improved from 76 days in FY21 to 63 days in FY22 owing to faster recovery of debtors. Led by the above, the working capital cycle improved to 29 days in FY22 from 40 days in FY21. The average utilization of the cash credit facility for past 12 months ending June 2022 remained moderately utilized at 73.67%; however non fund based limits utilization remained fully utilized for past twelve months ending June 2022.

Inherent cyclicality 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, and 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 cyclicality in these industries (especially tractors). Any downturn in these industries is likely to impact the company's revenue and profitability. Besides, in case of any significant reduction in revenue is also expected to have a significant impact on profitability given the high fixed cost structure. The demand for this industry is also susceptible to changes in the economic climate. Customer preferences especially in many of the developed markets appear to be moving in favor of more fuel efficient and environmentally friendly vehicles (however less significant in case of commercial vehicles and tractors). Furthermore, in many countries there has been significant pressure on the automotive industry to reduce carbon dioxide emissions. In many markets these preferences are driven by increasingly stringent government regulations, rising fuel prices and customers' environmental considerations. Thus, such cyclicality in the respective sectors to which BGL caters may pose a threat to the business of BGL.

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 42% in FY22. As compared to exports, there are no imports. However, the company mitigates foreign currency risk as Rs. 292 crore of exports being hedged in FY22. The remaining is kept open. Nevertheless, the foreign exchange fluctuation risk continues to persist due to timing differences and volatility in the other currency prices. BGL has incurred foreign exchange profit of Rs. 2.82 crore in FY22 vis-à-vis foreign exchange profit of Rs. 0.56 crore in FY21.

Liquidity: Adequate

BGL's liquidity position is marked by adequate gross cash accruals being generated as compared to past few years. The company's average fund-based utilization for past 12 months ending June 2022 stood at 73.67% as compared to the sanctioned non-fund-based limit utilization of 96% for the past twelve months ending June 2022. Also, cash flow from operating activities remained positive at Rs. 22.39 crore in FY22 vis-à-vis positive cash flow operations at Rs. 55.18 crore in FY21. Further, current ratio remained above average. Besides, improved accruals are expected to support liquidity profile of BGL over the medium term. The company has gross cash accruals of Rs. 50.46 crore to fund the repayment obligations of Rs. 28.39 crore in FY22 and is projecting better debt service coverage ratio during the next three years.

Analytical approach: Standalone

Applicable criteria:

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Auto Ancillary Companies
Manufacturing Companies

About the Company

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. BGL has registered office at Faridabad and corporate office located at Mumbai. The company has state-of-the-art manufacturing facilities located at 3 places - Mumbra near Mumbai; Faridabad near Delhi; and Satara in Maharashtra. 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 (68% in FY22), with tractors being the key end user sector for its products.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (Prov.)
Total operating income	501.03	729.17	186.00
PBILDT	33.85	65.49	15.00
PAT	-7.70	25.84	4.00
Overall gearing (times)	2.28	1.42	NA*
Interest coverage (times)	1.49	3.57	3.75

A: Audited; Prov.: Provisional;
NA: Not Available as being a listed entity, the company does not publish its debt figures in Q1.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not Applicable

Disclosure of Interest of Managing Director & CEO: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Not Available

Complexity level of various instruments rated for this company: Annexure 4

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 along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	May 10, 2028	94.79	CARE BBB; Stable
Non-fund-based - ST-Proposed non fund based limits	-	-	-	-	28.21	CARE A3+
Fund-based - LT-Cash Credit	-	-	-	-	40.00	CARE BBB; Stable
Fund-based - LT-Proposed fund based limits	-	-	-	-	10.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	52.00	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	94.79	CARE BBB; Stable				

2	Non-fund-based - ST-Proposed non fund based limits	ST	28.21	CARE A3+				
3	Fund-based - LT-Cash Credit	LT	40.00	CARE BBB; Stable				
4	Fund-based - LT-Proposed fund based limits	LT	10.00	CARE BBB; Stable				
5	Non-fund-based - ST-BG/LC	ST	52.00	CARE A3+				

*Long term/Short term.

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Period of Forward Contracts	The period of all forward contracts would be limited to the company's normal operating cycle and will, in any case, not exceed one year.
B. Non-financial covenants	
1. Stock Statement	The company to submit stock statement in bank's standard stock statement format and further, the date wise list of all the debtors to be submitted every month.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of 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: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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

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About us:
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