

Osho Forge Limited

January 23, 2019

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	57.28 (reduced from Rs. 58.00 crore)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Total Facilities	57.28 (Rs. Fifty Seven Crore and Twenty Eight lakh only)		

Details of instruments/facilities in Annexure-1

**The combined business and financial risk profiles of Emson Gears Limited (EGL) and Osho Forge Limited (OFL) have been considered as both companies (together referred to as 'Group') have common promoters, common management and have operational linkages*

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Osho Forge Limited (OFL) takes into account increasing income and improving solvency position of the group in FY18 (Audited; refers to the period April 01 to March 31) along with healthy scale-up of operations, improvement in the PAT margins and interest coverage ratio in 9MFY18 (Prov.; refers to the period April 01 to December 31). The rating continues to derive strength from the experienced & resourceful promoters providing regular financial support to the group, reputed clientele, long track record of operations with comfortable PBILDT margins, and business synergies arising from operational linkages within the group.

The rating, however, is constrained by the working capital intensive nature of operations, client concentration risk, susceptibility of profitability margins to raw material price volatility and cyclical nature of the automobile industry.

Going forward, the ability of the group to profitably scale-up its operations, improve the overall solvency position, while managing the working capital requirements efficiently will remain the key rating sensitivities. Furthermore, any new capex and funding mix for the same impacting the credit profile will also remain a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Increasing income & improving solvency position: The income of the group increased by ~5% in FY18 mainly on the back of increased demand from the customers in the tractor industry. The segment contributed ~80% of the total income of the group in FY18 (~75% in FY17). The PBILDT margins continued to remain comfortable at 14.70%. The same, however, declined from 15.60% in FY17 on account of higher employee expenses incurred by the group. However, the PAT margins improved to 1.69% in FY18 (PY: 0.89%) on account of lower interest expenses incurred due to lower interest paid on unsecured loans (infused by the promoters and related parties) and lower deferred taxes. The capital structure of the group has remained satisfactory and improved on a year-on-year basis with long-term debt to equity and overall gearing ratios of 0.47x and 1.29x, respectively, as on March 31, 2018 (PY: 0.49x and 1.39x, respectively). Further, the debt coverage indicators of the group remained satisfactory and also improved on a year-on-year basis with total debt to GCA of 7.82x, as on March 31, 2018 (PY: 8.69x) and interest coverage ratio of 1.98x in FY18 (PY: 1.84x).

In 9MFY19 (Prov.), the group has achieved a total operating income of Rs.217.82 Cr., with PBILDT and PAT margins of 12.95% and 2.02%, respectively (PY same period: 13.59% and 1.60%, respectively). The scale of operations increased by ~20%, on a year-on-year basis, due to increased demand from its customers. Furthermore, the interest coverage ratio also improved to 2.22x in 9MFY19 (Prov.) compared to 1.97x in 9MFY18 (Prov.).

Experienced promoters with long track record of operations: The group is promoted by Mr. Ashok Dhall and Mr. Vimal Dhall (brother of Mr. Ashok Dhall). The promoters/directors have rich experience of around four decades in the industry. Both the promoters are involved in the overall business operations of the group and are ably supported by a team of professionals who are highly experienced in their respective domains. They are supported by Mr. Gautam Dhall, who is Director in EGL and Joint Managing Director in OFL and holds a bachelor degree in Mechanical Engineering, and has an experience of around two decades in this industry. To fund various business requirement of the group in the past, regular funds have been infused by the promoters and related parties. The same stood at Rs.23.39 cr., as on March 31, 2018 (PY: Rs. 20.78 cr.) which further increased to Rs. 27.32 cr., as on December 31, 2018 (Prov.). Out of these, Rs. 18.44 cr. remain subordinate to the bank loans.

Well-established clientele: The group has established relationship with various Original Equipment Manufacturers (OEM's) including Mahindra & Mahindra (M&M; rated 'CARE AAA; Stable/ CARE A1+'), International Tractors Limited, SML

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Isuzu Limited etc. Further, the reputed client base ensures timely payments and lends comfort to the revenue realization for the products sold. The group has been associated with these customers for the last 15 years and receives regular orders from them. However, the group faces customer concentration risk with M&M contributing ~53% of the total income in FY18 (PY: 41%). Going forward, any deterioration in the operational & financial performance of the OEM is expected to have an impact on the overall performance of the group.

Business synergies due to operational linkages within group: EGL procures raw material (forged components and semi-finished components) largely from its group company OFL. For EGL, the total input procurement from OFL stood at approximately 90% of total material cost in FY18 (~75% in FY17). EGL then provides value addition to the product (through machining) and subsequently sells the product to the client. For OFL, in FY18, the income derived from sales to EGL accounted for majority of the total operating income achieved during the year. Given the significant operational linkages within the group, the operational risk on account of dependence on outside suppliers for raw materials remains low. Furthermore, handling of various manufacturing processes within the group has led to healthy PBILDT margins in the past.

Key rating weaknesses

Customer concentration risk: The group faces customer concentration risk with M&M contributing ~53% of the total income in FY18 (PY: 41%) and the balance is fragmented across various players. Going forward, any deterioration in the operational & financial performance of the OEM is expected to have an impact on the overall performance of the group.

Susceptibility of margins to volatility in raw material prices: The operations of the group are raw material intensive in nature with the raw material cost constituting ~45% of the total operating income in the FY16-18 period. With global steel prices highly volatile in nature and susceptible to speculative trading, the margins of group are exposed to raw material fluctuation risk.

Inherent cyclicity of the auto component industry: The products manufactured by group find applications in the automobile sector (majorly tractor industry) which is cyclical in nature. This inherent cyclicity associated with the industry can have an impact on the revenue generation capabilities and profitability of the group. However, in FY18, tractor industry in India recorded volume increase of ~22% over the previous year from which the group derived ~80% of its total income during the year (Source: M&M Annual reports).

Liquidity Position

The overall liquidity position of the group has remained satisfactory. The operations of the group are working capital intensive in nature marked by elongated operating cycle of ~151 days, as on March 31, 2018 (PY: 138 days). The same is on account of the nature of the business, wherein, both forging and machining works are done in-house leading to high work-in-process (WIP) inventory. Further, the group has a wide product range of around 480 items, to cater to the clients' needs leading to high inventory levels. The average fund based working capital utilization level has remained fully utilized for OFL and ~93% for EGL, in the last 12 months period ended December-2018. However, the operations of the group have been supported by regular fund infusion by the promoters in the past (additional fund infusion of Rs. 2.61 cr. and Rs. 3.93 cr. in FY18 and 9MFY19, respectively). The working capital limits are also proposed to be enhanced going forward, which is further expected to strengthen the liquidity profile. The group has a total debt repayment obligation of Rs.10.31 cr. in FY19, proposed to be met through the internal accruals (GCA of Rs.15.38 crore in FY18 and Rs.13.05 crore in 9MFY19). It also had an unencumbered cash & balance of ~Rs. 2.09 crore, as on March 31, 2018. With no major capex plans in the near future and debt repayment obligations in the range of 9-10 Cr. per annum in the FY19-FY20 period, the liquidity position of the group is expected to remain satisfactory. The current and quick ratios stood at 1.00x and 0.38x, respectively (Previous Year: 0.96x and 0.40x, respectively).

Analytical Approach: Combined Approach. The combined financials of Emson Gears Limited (EGL) and Osho Forge Limited (OFL) have been considered.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[Financial ratios – Non-Financial Sector](#)
[CARE's policy on default recognition](#)
[CARE's methodology for manufacturing companies](#)
[Criteria for Short Term Instruments](#)
[CARE's methodology for auto ancillary companies](#)
[Rating Methodology- Factoring linkages in rating](#)

Group Background

Osho Forge Limited (OFL) belongs to the Emson Group of Punjab, founded in 1970 and has a group company- Emson Gears Limited (EGL; rated CARE BBB-; Stable). EGL was incorporated as a partnership firm in 1970 by Mr. Ashok Kumar Dhall and Mr. Vimal Dhall, by the name, 'M/s Emson Sales'. In April 1996, the firm was reconstituted as a closely held company to take-over the business carried out under the firm. EGL is engaged in the manufacturing and selling of automobile parts such as differential and transmission gears, crown wheels and pinions, etc.

OFL is a closely held company incorporated in June 1993 by Mr. Vimal Dhall. It is engaged in the manufacturing of automobile parts such as axles, bull gears and shafts. The company has both forging and machining facilities at its manufacturing plants.

The manufacturing facilities of the group are located in Ludhiana, Punjab and parts manufactured are primarily sold to OEMs (Original Equipment Manufacturers) based in India catering to the tractor and commercial vehicle industry.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	138.38	147.28
PBILDT	15.94	14.72
PAT	1.43	1.46
Overall gearing (times)	1.16	1.02
Interest coverage (times)	1.77	1.81

A: Audited

Status of non-cooperation with previous CRA: CRISIL has conducted the review on the basis of best available information and has classified the Osho Forge Limited as "Not Cooperating" vide its press release dated January 14, 2019.

Any other information: NA

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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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-Cash Credit	-	-	-	42.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	July-2024	10.28	CARE BBB-; Stable
Fund-based - LT-Bank Overdraft	-	-	-	5.00	CARE BBB-; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	42.00	CARE BBB-; Stable	-	1)CARE BB; Stable (05-Oct-17)	1)CARE BB- (18-Oct-16)	-
2.	Fund-based - LT-Term Loan	LT	10.28	CARE BBB-; Stable	-	1)CARE BB; Stable (05-Oct-17)	1)CARE BB- (18-Oct-16)	-
3.	Fund-based - LT-Bank Overdraft	LT	5.00	CARE BBB-; Stable	-	1)CARE BB; Stable (05-Oct-17)	-	-

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