RACL Geartech Limited

August 09, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	97.58 (enhanced from 76.99)	**CARE BBB; Positive [Triple B; Outlook: Positive]**	**Rating Reaffirmed; Outlook revised to Positive**
Short term Bank Facilities	5.00 (enhanced from 2.00)	**CARE A3 (A Three)**	**Reaffirmed**
Total Facilities	**102.78 (Rupees One hundred two crore and seventy eight lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of RACL Geartech Ltd (RGL) continues to derive strength from the extensive experience of its promoter in the automotive components industry, RGL's long track record of operations with established market position and reputed client base and long association with these clients. The ratings also take into account RGL's improved financial risk profile as marked by consistently increase in total income, improved profitability margins buoyed by increasing exports sales and economies of scale. The ratings are; however, continue to be constrained by its modest scale of operations, moderate overall gearing, its working capital intensive nature of business operations and cyclical nature of the automotive industry.

Going forward, the ability of the company to profitability scale up its operations, improve its capital structure while effectively managing its working capital requirement shall remain the key rating sensitivities.

Outlook: Positive

The outlook for the rating has been revised to positive on account CARE's expectation of increase in scale of operations along with maintenance of profitability margins. Going forward, the outlook may be revised to 'Stable' if increase in revenues and profitability is lower than expected or if there is higher than expected leverage, or if there is stretch in working capital utilization which weakens its liquidity position.

Detailed description of the key rating drivers

Experienced promoters- RGL has more than three decades of presence in the automobile component industry. Mr Gursharan Singh, CMD 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.

Established player with reputed client base- RGL 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 clients both in domestic and export markets.

Improved financial risk profile - During FY19, RGL's total operating income registered a y-o-y growth of 39% to Rs.190.59 crore led by rise in export business (growth of 54%) coupled with repeat orders from existing clients. The same is primarily on account of various initiatives by entering into tie-ups with new and existing clients. The company mainly exports to clients based in Italy, Vietnam, Japan, Germany, Switzerland and Austria. However, the scale of operations remains modest. The increase in export sales wherein company fetches higher margins along with economies of scales led to improvement of PBILDT margin to 16.44% in FY19 (PY: 13.77%). The coverage indicators improved with interest coverage & total debt to gross cash accruals at 4.92x and 4.19x as on March 31, 2019 as against 3.30x and 5.17x as on March 31, 2018. RGL's capital structure remains moderate during FY19 as evident from overall gearing ratio of 1.28x as on March 31, 2019 as against 1.22x as on March 31, 2018 primarily owing to debt funded capital expenditure undertaken during the period. The promoters have been supporting the company by infusing equity on regular basis. In FY19, the promoters infused Rs.2.46 crore as equity and in July 2019, the promoters infused Rs.3.62 crore as share application money.

Moderate concentration risk- RGL has moderate concentration risk with top five customers contributing ~76% revenue in FY19 (PY: 70%). Segment-wise, the company's reliance on the 2-3 wheeler remained highest with the segment contributing 59% of revenue in FY19 against 58% in FY18. Furthermore, comfort is drawn from the fact that the company is a preferred vendor for many of its customers with whom it has long-term relationships.

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

Key Rating Weaknesses

Working capital intensive nature of operations- Being in auto ancillary industry, the operations of the company are working capital intensive in nature with operating cycle of around 4.5 months. This high working capital cycle leads to high reliance on the fund-based facilities to meet the working capital requirements.

Cyclicality nature of the automotive industry- The automobile industry is highly cyclical in nature and automotive component suppliers' sales are directly linked to sales of auto OEMs. Furthermore, the auto-ancillary industry is highly competitive with the presence of a large number of players in the organized as well as unorganized sector.

Liquidity: The company had cash balance of Rs.0.70 crore as on March 31, 2019. The liquidity remains moderate with positive cash flow from operations, average working capital utilization was 90.88% during 12 month period ended June-2019. The cash flow from operations is also to some extent utilized for capex done for capacity expansion and technical upgradation.

Analytical approach: *Standalone*

Applicable Criteria

- Criteria on assigning Outlook to Credit Ratings
- CARE's Policy on Default Recognition
- Rating Methodology-Manufacturing Companies
- Criteria for Auto Components
- Criteria for Short Term Instruments
- Financial ratios – Non-Financial Sector

About the Company

RGL (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), RGL came out of the BIFR purview in November 2007. The company has two manufacturing units in Uttar Pradesh at Gajraula and Noida.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	136.86	190.59
PBILDT	18.84	31.34
PAT	8.00	9.77
Overall gearing (times)	1.22	1.28
Interest coverage (times)	3.30	4.92

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

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

Annexure -1: Details of 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	-	-	Jan'24	**46.08**	**CARE BBB; Positive**
Fund-based - LT-Cash Credit	-	-	-	**51.50**	**CARE BBB; Positive**
Non-fund-based - ST-BG/LC	-	-	-	**5.00**	**CARE A3**

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	46.08	CARE BBB; Positive	-	1)CARE BBB; Stable (01-Aug-18)	1)CARE BBB; Stable (24-Jul-17)	1)CARE BBB (10-Oct-16)
2.	Fund-based - LT-Cash Credit	LT	51.50	CARE BBB; Positive	-	1)CARE BBB; Stable (01-Aug-18)	1)CARE BBB; Stable (24-Jul-17)	1)CARE BBB (10-Oct-16)
3.	Non-fund-based - ST-BG/LC	ST	5.00	CARE A3	-	1)CARE A3 (01-Aug-18)	1)CARE A3 (24-Jul-17)	1)CARE A3 (10-Oct-16)

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
RACL Geartech Ltd to maintain below financial covenants mentioned by one of the lenders, breach of covenants shall be considered event of default: a) Total Debt/ ATNW:<=2.0x for FY19 b) Debt/ EBITDA <=4.25x for FY19 c) DSCR>=1.25x for FY19	The breach of these covenants shall be treated as event of default by bank.
RACL Geartech Ltd. will have to adhere to the financial covenants during the continuation of facilities by one of the lenders: a) DSCR>=1.25x for FY19 b) Debt/ EBITDA <=4.0x for FY19 c) Interest coverage Ratio >=2.25x for FY19 d) Fixed asset coverage ratio>=1.50x **e)** Creditors holding period <=80 days	The bank will check annual financial statements for adherence to these financial covenants.

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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