

RACL Geartech Ltd

July 24, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	53.44 (Enhanced from Rs.47.17 crore)	CARE BBB; Stable [Triple B; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	2.00	CARE A3 [A Three]	Reaffirmed
Total	55.44 (Rupees Fifty Five Crore And Forty Four Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings derive strength from the extensive experience of its promoter in the automotive components industry, RGL's proven track record of operations with established market position and long standing relationship with reputed client base. The ratings also take into account RGL's moderate financial risk profile characterized by high profitability and its moderate debt coverage indicators. The ratings are, however, constrained by its modest scale of operations, working capital intensive nature of business operations and cyclical nature of the automotive industry.

Going forward, the ability of the company to achieve the envisaged revenue and profitability while effectively managing its working capital requirement shall remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters- RGL have 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.

Moderate financial risk profile- The financial profile is exhibited by modest scale of operations, high profitability and improved debt coverage indicators. During FY17, both sales and PBILDT margins remained stable at FY16 levels. The capital structure of the company although improved but still remain moderate with overall gearing ratio of 1.44x as on March 31, 2017 and the debt coverage indicators as exhibited by total debt to GCA stood at 5.46x as on March 31, 2017.

Reduced concentration risk- RGL has managed to reduce concentration risk with top five customers contributing ~64% revenue in FY17 against 70% in FY16 but segment-wise, the company's reliance on the 2-3 wheeler increased.

Key Rating Weaknesses

Foreign exchange risk persists- RGL is exposed to foreign currency risk for its export business. The risk is, however, mitigated to an extent as the company has entered into contracts with some of its foreign clients that provide for partial compensation against any adverse forex movement. Furthermore, the company enters into forward contracts to minimize forex losses.

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.

Cyclical 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.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Rating Methodology-Manufacturing Companies](#)

[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.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	118.15	116.78
PBILDT	15.21	14.98
PAT	3.70	4.46
Overall gearing (times)	1.62	1.44
Interest coverage (times)	2.74	2.96

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	June 2021	10.94	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	42.50	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	2.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	10.94	CARE BBB; Stable	-	1)CARE BBB (10-Oct-16)	1)CARE BBB (09-Sep-15)	-
2.	Fund-based - LT-Cash Credit	LT	42.50	CARE BBB; Stable	-	1)CARE BBB (10-Oct-16)	1)CARE BBB (09-Sep-15)	-
3.	Non-fund-based - ST-BG/LC	ST	2.00	CARE A3	-	1)CARE A3 (10-Oct-16)	1)CARE A3 (09-Sep-15)	-

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