

## RACL Geartech Ltd

August 01, 2018

### Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	76.99 (Enhanced from 53.44)	<b>CARE BBB; Stable</b> <b>[Triple B; Outlook: Stable]</b>	Reaffirmed
Short-term Bank Facilities	2.00	<b>CARE A3</b> <b>[A Three]</b>	Reaffirmed
<b>Total</b>	<b>78.99</b> <b>(Rupees Seventy Eight Crore And Ninety Nine Lakh only)</b>		

### 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. The ratings also take into account RGL's moderate financial risk profile attributable to growing scale of operations, improved profitability and moderate overall gearing. The ratings are; however, continue to be constrained by its modest scale of operations, its working capital intensive nature of business operations, foreign currency fluctuation risk 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

**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 attributable to growing scale of operations, improved profitability and moderate overall gearing** - In FY18, although the company's total operating income has registered y-o-y growth of ~17% to Rs.136.84 crore owing to rise in export sales but scale of operations still remains modest. Also, the company has reported improvement in its PBILDT margins during the period by 82 bps to 13.65%. The capital structure of the company although improved but still remain moderate with overall gearing ratio of 1.24x as on March 31, 2018 and the debt coverage indicators as exhibited by total debt to GCA stood at 5.34x as on March 31, 2018.

**Moderate concentration risk-** RGL has moderate concentration risk with top five customers contributing ~70% revenue in FY18 but segment-wise, the company's reliance on the 2-3 wheeler remained highest.

### 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.

(Rs. Crore)

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	116.78	136.84
PBILDT	14.98	18.68
PAT	4.46	7.87
Overall gearing (times)	1.44	1.24
Interest coverage (times)	2.96	3.27

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](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.

### Analyst Contact:

Name: Manek Narang

Tel: 011- 45333233

Mobile: 9810596225

Email: [manek.narang.careratings.com](mailto:manek.narang.careratings.com)

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### About CARE Ratings:

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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	-	-	Jan'24	29.49	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	47.50	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 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-Term Loan	LT	29.49	CARE BBB; Stable	-	1)CARE BBB; Stable (24-Jul-17)	1)CARE BBB (10-Oct-16)	1)CARE BBB (09-Sep-15)
2.	Fund-based - LT-Cash Credit	LT	47.50	CARE BBB; Stable	-	1)CARE BBB; Stable (24-Jul-17)	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 (24-Jul-17)	1)CARE A3 (10-Oct-16)	1)CARE A3 (09-Sep-15)

**CONTACT****Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91- 0172-490-4000/01

Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**COIMBATORE****Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

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