

Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL

An S&P Global Company

Rating Rationale

May 19, 2022 | Mumbai

Bharat Gears Limited

Ratings upgraded to 'CRISIL BBB-/Stable/CRISIL A3'

Rating Action

Total Bank Loan Facilities Rated	Rs.266.2 Crore
Long Term Rating	CRISIL BBB-/Stable (Upgraded from 'CRISIL BB+/Positive')
Short Term Rating	CRISIL A3 (Upgraded from 'CRISIL A4+')

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed rationale

CRISIL Ratings has upgraded its ratings on the bank loan facilities of Bharat Gears Limited (BGL) to '**CRISIL BBB-/Stable/CRISIL A3**' from '**CRISIL BB+/Positive/CRISIL A4+**'

The rating upgrade reflects improvement in business risk profile on the back of healthy revenue growth and improved profitability expected in current fiscal. Revenue is expected to grow by around 35-40% in fiscal 2022 backed by healthy demand from export market and improved orders from large clients in the domestic market. Company has posted 63.7% growth in revenue during first nine months of fiscal 2022 on a year-on-year basis; albeit on a lower base. While revenue growth is expected to moderate over medium term; scale is expected to be maintained given sustained orders expected from clients. Supported by improved fixed cost absorption and better efficiency at its Mumbra plant; operating margin is expected to improve by around 200-300 basis points in current fiscal and likely to be sustained over medium term.

The rating action also reflects improvement in financial risk profile of the company on the back of refinancing of Rs 40 crore debt with longer tenure. This has significantly reduced the annual repayment obligations of the company, enhancing the cash flow cushion available and strengthening the overall financial flexibility of the company. Financial risk profile has been marked by high leverage levels with total outside liabilities to adjusted debt (TOLANW) of 4.11 times as on 31st March 2021, which should also moderate over the medium term on the back of equity infusion of Rs 9.5 crore in current fiscal, higher accruals, and moderation in creditors.

The ratings continue to reflect BGL's established market position in the automotive component industry with strong client profile in the tractor segment, albeit high concentration of revenue from few clients and strong manufacturing capabilities and infrastructure. These strengths are partially offset by high leverage levels, and exposure to cyclicity in end-user industries.

Key Rating Drivers & Detailed Description

Strengths

Established market position in the automotive component industry and strong client profile, albeit high customer concentration in revenue

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 50% of the turnover. While there is client concentration, these customers have been dealing with BGL for over two decades and the components supplied are critical to the product, partially mitigating this risk.

Strong manufacturing infrastructure

The company has, over the years, developed strong capabilities in gear manufacturing, enabling it to be a quality and reliable supplier to reputed OEMs in the domestic as well as international markets. Facilities in Mumbra, Satara (Maharashtra), and Faridabad (Haryana) are fitted with modern equipment and certified as per International Organization for Standardization. BGL also has capable research and development facilities to support development of new product variants and evolution of existing products to meet customer needs.

Weaknesses

Leveraged capital structure

Networth is expected to improve to over Rs 100 crores in fiscal 2022 from Rs 72.75 crore as on March 31, 2021; however remains moderate. TOLANW ratio remained high at 4.1 times, as on March 31st 2021, largely due to debt-funded capital expenditure (capex) carried out in the past and large creditors. TOLANW has improved to around 3.7 times as on September 30th, 2021, and is expected to further improve over the medium term backed by improved accruals, repayment of existing debt, moderation in creditors and absence of any large, debt-funded capex.

While debt protection metrics were average with interest coverage and net cash accrual to adjusted debt of 1.63 and 0.15 times in fiscal 2021, this was largely due to pandemic related impact. Interest coverage has improved to around 3.98 times in the first nine months of fiscal 2022. Debt protection metrics is expected to remain comfortable over the medium term.

Exposure to cyclical in end-user industries and volatile operating margin

Since BGL generates majority of its revenue from OEMs across the tractor, construction equipment, and commercial vehicle segments, it remains susceptible to cyclical in these industries (especially tractors). Any downturn in these industries is likely to impact the company's revenue and profitability. Any significant reduction in revenue is also expected to have a material impact on profitability given the high fixed cost structure. While the cost structure has improved over the past quarters and impact is expected to moderate; exposure to cyclical in end-user industries is expected to continue over the medium term.

Liquidity: Adequate

Net cash accruals are expected to be around Rs 43-50 crore per fiscal adequate to meet term loan repayment of Rs Rs 7-15 crore per fiscal over the medium term and capex requirements expected at Rs 8-10 crore per annum over the medium term. Average bank limit utilisation was 77% (fund-based limit of Rs 40 crore) during the twelve months through March 2022. Equity infusion of Rs 9.5 crore during current fiscal and improved accruals are expected to support liquidity profile over the medium term.

Outlook: Stable

CRISIL Ratings believes BGL's business and financial risk profile is expected improve supported by improved scale of operations and profitability backed by healthy demand from domestic and international markets.

Rating Sensitivity Factors**Upward factors**

- Growth in revenue and operating margins sustained above 11-12% backed by improvement in cost structure, strengthens the net cash accruals
- Improvement in financial risk profile backed by decline in overall leverage levels, improvement in working capital cycle and strengthening of overall financial flexibility

Downward factors

- Subdued revenue growth or lower than expected profitability weakens cash accruals to below Rs 23 crores consistently
- Stretch in working capital limits or higher than expected debt funded capex or weakening of debt protection metrics weakens financial risk profile, especially liquidity

About the Company

Established in 1971, BGL manufactures a range of gears for tractors, commercial vehicles, buses, and utility vehicles. Products include hypoid and spiral gears, differential gears and shafts, complete automotive transmissions, gearbox sub-assemblies, and differential assemblies

Key Financial Indicators

Particulars	Unit	2021	2020
Revenue	Rs.Crore	503	463
Profit After Tax (PAT)	Rs.Crore	-7.7	-18.8
PAT Margin	%	-1.5	-4.1
Adjusted debt/adjusted network	Times	1.5	1.9
Interest coverage	Times	1.6	1.1

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Complexity level	Issue Size (Rs.Cr)	Rating Assigned with Outlook
NA	Fund-Based Facilities	NA	NA	NA	NA	30	CRISIL BBB-/Stable
NA	Fund-Based Facilities	NA	NA	NA	NA	10	CRISIL BBB-/Stable
NA	Non-Fund Based Limit	NA	NA	NA	NA	17	CRISIL A3
NA	Non-Fund Based Limit	NA	NA	NA	NA	35	CRISIL A3
NA	Proposed Working Capital Facility	NA	NA	NA	NA	94	CRISIL BBB-/Stable
NA	Term Loan	NA	NA	Mar-2028	NA	80.2	CRISIL BBB-/Stable

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2022 (History)		2021		2020		2019		Start of 2019
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	214.2	CRISIL BBB-/Stable	03-02-22	CRISIL BB+/Positive	10-03-21	CRISIL BB+/Stable	29-12-20	CRISIL BB-/Watch Negative /	10-06-19	CRISIL BBB-/Stable / CRISIL A3	CRISIL BBB-/Stable / CRISIL A3

									CRISIL A4+/Watch Negative			
			--			23-02-21	CRISIL BB+/Stable / CRISIL A4+	30-09-20	CRISIL BB-/Watch Negative / CRISIL A4+/Watch Negative		--	CRISIL BBB-/Stable
			--				--	22-01-20	CRISIL BB+/Stable / CRISIL A4+		--	--
Non-Fund Based Facilities	ST	52.0	CRISIL A3	03-02-22	CRISIL A4+	10-03-21	CRISIL A4+	29-12-20	CRISIL A4+/Watch Negative	10-06-19	CRISIL A3	CRISIL A3
			--			23-02-21	CRISIL A4+	30-09-20	CRISIL A4+/Watch Negative		--	--
			--				--	22-01-20	CRISIL A4+		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Fund-Based Facilities	30	State Bank of India	CRISIL BBB-/Stable
Fund-Based Facilities	10	IDBI Bank Limited	CRISIL BBB-/Stable
Non-Fund Based Limit	17	IDBI Bank Limited	CRISIL A3
Non-Fund Based Limit	35	State Bank of India	CRISIL A3
Proposed Working Capital Facility	94	Not Applicable	CRISIL BBB-/Stable
Term Loan	35	KKR India Financial Services Limited	CRISIL BBB-/Stable
Term Loan	40	Aditya Birla Finance Limited	CRISIL BBB-/Stable
Term Loan	1.57	IDBI Bank Limited	CRISIL BBB-/Stable
Term Loan	3.63	State Bank of India	CRISIL BBB-/Stable

This Annexure has been updated on 19-May-22 in line with the lender-wise facility details as on 06-Dec-21 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Auto Component Suppliers
CRISILs Criteria for rating short term debt
Understanding CRISILs Ratings and Rating Scales

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