

Press Release

Top Gear Transmission

August 27, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 23.91 Cr. (Enhanced from Rs.9.91 Cr.)
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 23.91 crore bank facilities of TOP GEAR TRANSMISSION (TGT). The outlook is '**Stable**'.

Top Gear Transmission (TGT) is a proprietorship firm engaged in designing and manufacturing of planetary gear boxes and custom-built gear boxes, used in industries such as capital goods, sugar, construction equipment, and steel. It was established in 2002 by Mr. Shrikant Pawar. Its manufacturing facility and registered office is located at Satara MIDC in Maharashtra.

Analytical Approach

Acuite has considered the standalone business and financial profiles of TGT to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

TGT is promoted by Mr. Shrikant Pawar, who also manages the day-to-day operations of the firm. He has an experience of more than two decades in the same line of business. The promoter's extensive experience is also reflected through the healthy revenue growth of over the last 3 years through 2017- 19 (Provisional). The firm's revenue grew at a CAGR of ~13.00 per cent over the aforementioned period. Further, TGT caters to reputed clientele such as Thyssen Krupp India Pvt Ltd, Godrej & Boyce Mfg. Co. Ltd, Finolex Industries Ltd, Steel Authority of India Limited, to name a few. Acuite believes that TGT will continue to enjoy repeat business orders as reflected by its increasing revenue. Acuite believes that the firm will continue to benefit through the promoter's extensive industry experience over the medium term.

• Improving revenues with fluctuations in profitability

The company showed improvement in revenues marked by operating income of Rs.54.55 crore for FY2019 (Provisional) as against Rs. 39.55 crore in FY2018 and Rs.30.16 crore for FY2017. The operating margins of TGT stood fluctuating at 10.27 per cent in FY2019 (Provisional) as compared to 12.00 per cent in FY2018 and 14.03 per cent in FY2017. Fluctuations in margins are mainly on account of fluctuation in raw material prices and increasing job work charges. The net profitability has been moderate at 4.02 per cent in FY2019 (Provisional) as compared to 4.07 per cent in FY2018 and 5.51 per cent mainly on account of increase in finance cost

Weaknesses

• Moderate financial risk profile

TGT's financial risk profile is marked by its low net worth, moderate gearing and moderate debt protection measures. The net worth increased to Rs.7.08 crore as on 31 March, 2019 (Provisional) as against Rs.5.99 crore in the previous year on account of increasing revenue, leading to higher accretion to reserves. The firm's gearing improved to 1.73 times as on 31 March, 2019 (Provisional) as against 2.27 times in the previous year. The firm has followed a moderately aggressive financial policy in the past, as reflected by its peak gearing of around 2.27 times as on March 31, 2018. The total debt of Rs.12.27 crore consists of long-term debt of Rs.6.58 crore, Rs. 1.70 crore of unsecured loans from promoters and Rs.3.99 crore of short-term debt obligations. The healthy revenue growth coupled with moderate profitability levels has resulted in

healthy net cash accruals of Rs.3.11 crore during 2017-19 (Provisional), leading to moderate debt protection measures. The interest coverage ratio stood at 2.19 times in FY19 (Provisional) as against 2.07 times in the previous year. NCA/TD ratio stood at 0.25 times in FY19 (Provisional). Acuite believes that the financial risk profile will continue to remain moderate on account of improved cash accruals and growth in revenues.

• Working capital intensive operations

The working capital management is marked by Gross Current Assets (GCA) of 197 days in FY2019 (Provisional) as against 296 days in FY2018. The firm maintains inventory of around 150 days on an average and extends clean credit of around 90 days to its customers, resulting in high GCA days. The inventory and debtor levels stood at 111 days and 78 days in FY2019 (Provisional) as against 152 days and 121 days in FY2018, respectively. Acuite believes that the working capital requirement will continue to remain high over the medium term on account of its high inventory requirements to cater to spot orders.

Liquidity position:

The firm has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. The firm generated cash accruals of Rs.2.5-3.11 crore during the last three years through 2017-19 (Provisional), while the maturing debt obligations were Rs.1.8 over the same period. The cash accruals are estimated to remain in the range of Rs.3.0-5.5 crore, during 2020-22, with repayment obligation of Rs. 0.8. The group maintains cash and bank balances of Rs.0.55 crore. The current ratio is moderate at 1.20 times as on March 31, 2019 (Provisional). Acuite believes that the liquidity of the company is likely to improve over the medium term on account of improvement in net cash accruals.

Outlook: Stable

Acuite believes that the outlook on TGT's rated facilities will remain 'Stable' over the medium term on account of its promoter's extensive experience and improvement in revenues. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	54.55	39.55	30.16
EBITDA	Rs. Cr.	5.60	4.75	4.23
PAT	Rs. Cr.	2.19	1.61	1.66
EBITDA Margin	(%)	10.27	12.00	14.03
PAT Margin	(%)	4.02	4.07	5.51
ROCE	(%)	24.66	21.12	19.57
Total Debt/Tangible Net Worth	Times	1.73	2.27	2.18
PBDIT/Interest	Times	2.19	2.07	2.44
Total Debt/PBDIT	Times	2.15	2.74	2.87
Gross Current Assets (Days)	Days	197	296	306

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
15-Jan-2019	Cash Credit	Long Term	4.00	ACUITE B+/Stable (Assigned)
	Term Loan	Long Term	2.00	ACUITE B+/Stable (Assigned)
	Term Loan	Long Term	1.66	ACUITE B+/Stable (Assigned)
	Letter of Credit	Short Term	1.75	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B+/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.14	ACUITE B+/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE B+/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE A4 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4 (Reaffirmed)
Proposed Fund Based Facility	Not Applicable	Not Applicable	Not Applicable	13.27	ACUITE B+/Stable (Reaffirmed)
Proposed Non-Fund Based Facility	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Reaffirmed)

Contacts

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