

Press Release

Top Gear Transmission

March 04, 2020

Rating Upgraded and Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE B+**' (read as **ACUITE B plus**) and reaffirmed the short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 23.91 crore bank facilities of TOP GEAR TRANSMISSION.

The revision in rating is on account of improvement in financial risk profile and business risk profile as reflected by improvement in revenues.

Top Gear Transmission 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 changed the rating approach of Top Gear Transmission from standalone financial and business risk profile to consolidated business and financial risk profiles of Top Gear Transmission Private Limited (TGPL) and Top Gear Transmission (TGT) together referred to as 'TG Group' to arrive at the rating. The consolidation is mainly on account of similarity in the line of business strong operational and financial synergies and common management. Extent of Consolidation: Full

About the Group

TG group is engaged in designing and manufacturing of planetary gear boxes and custom-built gear boxes, which finds application in industries such as capital goods, sugar, construction equipment, and steel. TGPL undertakes job work for TGT. The group is promoted by Mr. Shashikant Pawar, Mr. Shrikant Pawar and other directors.

Key Rating Drivers

Strengths

• Experienced management

TG group is promoted by Mr. Shashikant Pawar and Shrikant Pawar, who manages the day-to-day operations of the group. The promoters have 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. The group's revenue grew at a CAGR of ~28.4 per cent over the aforementioned period. Further, the group 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 the group will continue to enjoy repeat business orders as reflected by its increasing revenue. Acuite believes that the group will continue to benefit through the promoter's extensive industry experience over the medium term.

• Improving revenues with fluctuations in profitability

The group showed improvement in revenues marked by operating income of Rs.63.11 crore for FY2019 as against Rs. 49.79 crore in FY2018 and Rs. 38.26 crore for FY2017. The improvement in revenues is on account the repeated orders enjoyed by the group. The operating margins of the group stood fluctuating at 11.31 per cent in FY2019 as compared to 12.58 per cent in FY2018 and 14.63 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 3.87 per cent in

FY2019 as compared to 3.71 per cent in FY2018 and 4.86 per cent mainly on account of high finance cost.

Weaknesses

• Average financial risk profile

TG group's financial risk profile is average marked by its low net worth, moderate gearing and moderate debt protection measures. The net worth increased to Rs.9.69 crore as on 31 March, 2019 as against Rs.7.51 crore in the previous year on account of increasing revenue, leading to higher accretion to reserves. The group's gearing improved to 1.57 times as on 31 March, 2019 as against 2.48 times in the previous year. The group has followed a moderately aggressive financial policy in the past, as reflected by its peak gearing of around 2.45 times as on March 31, 2019. The total debt of Rs.15.18 crore consists of long-term debt of Rs.5.65 crore, Rs. 3.56 crore of unsecured loans from promoters and financial institutions and Rs.5.97 crore of short-term debt obligations. The healthy revenue growth coupled with moderate profitability levels has resulted in healthy net cash accruals of Rs.3.96 crore during 2017-19, leading to moderate debt protection measures. The interest coverage ratio stood at 2.19 times in FY19 as against 2.14 times in the previous year. NCA/TD ratio stood at 0.27 times in FY19.

Acuite believes that the financial risk profile will continue to remain average on account of improved cash accruals and growth in revenues.

• Working capital intensive operation

The working capital management of the group is intensive marked by Gross Current Assets (GCA) of 228 days in FY2019 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. Inventory holding is usually high as the manufacturing process of each items takes time to be manufactured. The inventory and debtor levels stood at 124 days and 95 days in FY2019 as against 157 days and 123 days in FY2018, respectively. Receivables days improved on account of prompt realization of debtors. 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.

Rating Sensitivities

- Further deterioration in Gross Current Asset (GCA) to 310-330 days.
- Sustained improvement in the scale of operations while maintaining profitability leading to improvement in overall financial risk profile.

Material Covenants

None

Liquidity position: Adequate

The group has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. The group generated cash accruals of Rs.3.35-3.96 crore during the last three years through 2017-19, while the maturing debt obligations were Rs.2.5 over the same period. The cash accruals are estimated to remain in the range of Rs.3.90-5.5 crore, during 2020-22, with repayment obligation of Rs. 2.4. The group maintains cash and bank balances of Rs.0.35 crore. The current ratio is moderate at 1.14 times as on March 31, 2019. Acuite believes that the liquidity of the group is likely to improve over the medium term on account of improvement in net cash accruals.

Outlook: Stable

Acuite believes that the outlook on the group'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 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	63.11	49.79
PAT	Rs. Cr.	2.45	1.85
PAT Margin	(%)	3.87	3.71
Total Debt/Tangible Net Worth	Times	1.57	2.48
PBDIT/Interest	Times	2.19	2.14

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.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
27-Aug-2019	Cash Credit	Long Term	4.00	ACUITE B+ /Stable (Reaffirmed)
	Term Loan	Long Term	1.14	ACUITE B+ /Stable (Reaffirmed)
	Term Loan	Long Term	0.25	ACUITE B+ /Stable (Reaffirmed)
	Letter of Credit	Short Term	1.75	ACUITE A4 (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Reaffirmed)
	Proposed Bank Facility	Long Term	13.27	ACUITE B+ /Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	3.00	ACUITE A4 (Reaffirmed)
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 BB- /Stable (Upgraded from ACUITE B+ /Stable)
Term Loan	June, 2016	Not Applicable	Dec, 2022	1.14	ACUITE BB- /Stable (Upgraded from ACUITE B+ /Stable)
Term Loan	Feb, 2014	Not Applicable	Feb, 2020	0.25	ACUITE BB- /Stable (Upgraded from ACUITE B+ /Stable)
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 Bank Facility	Not Applicable	Not Applicable	Not Applicable	13.27	ACUITE BB- /Stable (Upgraded from ACUITE B+ /Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Reaffirmed)

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