

Press Release

Top Gear Transmission

May 26, 2021



Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs. 15.50 Cr. (Reduced from Rs. 23.91 Cr.)
Long Term Rating	ACUITE BB/Outlook: Stable (Upgraded from ACUITE BB-/Stable and Assigned)
Short Term Rating	ACUITE A4+ (Upgraded from ACUITE A4)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE BB-**' (**read as ACUITE double B minus**) and the short term rating to '**ACUITE A4+**' (**read as ACUITE A four Plus**) from '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 12.64 crore (reduced from Rs. 23.91 crore) bank facilities of Top Gear Transmission Private Limited (TGPL). Acuité has also assigned the long term rating to Rs. 2.86 crores bank facilities. The total facilities rated stood at Rs. 15.50 crore. The outlook is '**Stable**'.

The rating upgrade is driven by improvement in scale of operations despite challenges, economic slowdown and tepid industry scenario. The ratings also factors in improved profitability margins and net cash accruals along with expected sustainability of existing scale of operations on back of healthy order book position. Further, longstanding relationship with its existing customers, suppliers likely to result in recurring orders and regular flow of raw material ensuring steady operations.

About Company

Top Gear Transmission based of Satara, Maharashtra 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.

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.

Analytical Approach

Acuité has taken 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.

Key Rating Drivers

Strengths

• Experienced management and Establish track record of operations

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 in both public sector and private

sectors. Acuité believes that the group will continue to enjoy repeat business orders as reflected by its increasing revenue and will continue to benefit from the promoter's extensive industry experience over the medium term.

• Improving scale of operations and profitability margins backed by healthy order book

The operating income of the group stood improved at Rs. 58.62 crores in FY2021 (Provisional) as against Rs. 46.62 crores in FY2020. The improvement in revenues is due to receipt of healthy orders in FY2021. The operating margins marginally declined to 12.02 percent in FY2021 (Provisional) as against 13.84 percent in FY2020 on account of volatility in raw material prices i.e. steel. The net profit margins stood improved at 4.48 percent in FY2021 (Provisional) as against 3.42 percent in FY2020 due to reduction in interest cost. The group has orders worth Rs.27.50 crores to be executed in 4 to 6 months in FY2022 providing revenue visibility over near to medium term.

Weaknesses

• Moderate financial risk profile

The financial risk profile of the TG group remained moderate with modest net worth, moderate gearing and debt protection metrics. The net worth stood improved at Rs. 11.11 crores as on March 31, 2021 (Provisional) as against Rs. 9.81 crore as on March 31, 2020, on account of accretions of reserves. The gearing of the group stood moderate at 2.02 times as on March 31, 2021 (Provisional) as against 2.13 times as on March 31, 2020. The interest coverage ratio of the group stood moderate at 2.24 times as on March 31, 2021 (Provisional) as against 1.83 times as on March 31, 2020. The DSCR stood modest at 1.20 times as on March 31, 2021 (Provisional) as against 1.10 times as on March 31, 2020. TOL/TNW stood high at 3.60 times as on March 31, 2021 (Provisional) as against 4.24 times as on March 31, 2020. Acuité believes the financial risk profile of the group will be moderate backed by increasing accruals and no major debt funded capex plan.

• Working capital intensive operations

The operations of the group remained working capital intensive with GCA of 242 days as on March 31, 2021 (Provisional) as against 310 days as on March 31, 2020. The high GCA days are on account of higher inventory holding policy followed by group to cater recurring orders. The debtor days are slightly improved at 106 days as on March 31, 2021 (Provisional) as against 110 days as on March 31, 2020. The inventory holding days improved though remained high at 138 days as on March 31, 2021 (Provisional) as against 211 days in FY2020. The working capital limit utilization stood high at 97 percent for last six month ending March 2021.

Rating Sensitivities

- Deterioration in working capital cycle and debt protection metrics
- Sustained improvement in the scale of operations while maintaining profitability
- Improvement in overall financial risk profile and liquidity profile.

Liquidity Position: Adequate

The liquidity profile of the group stood adequate marked by net cash accruals of Rs. 2.99 to Rs. 4.00 crores for last years through FY2021 (Provisional). The repayment obligations stood at Rs.2.37 to Rs.3.24 crores for the same period. The current ratio stood 1.28 times as on March 31, 2021 (Provisional). The expected repayment obligations in FY2022-24 is expected to be in Rs.2.50 to 3.50 crores against net cash accruals of Rs.3.00 to 4.50 crores. The group maintains cash and bank balance of Rs. 0.75 crores as on March 31, 2021 (Provisional). The NCA/TD ratio stood at 0.18 times as on March 31, 2021 (Provisional) as against 0.14 times March 31, 2020. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of adequate cash accrual against debt repayments.

Outlook: Stable

Acuité 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 risk profile and liquidity position most likely as a

result of higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	58.62	46.62
PAT	Rs. Cr.	2.62	1.59
PAT Margin	(%)	4.48	3.42
Total Debt/Tangible Net Worth	Times	2.02	2.13
PBDIT/Interest	Times	2.24	1.83

Any other information

Not Applicable

Any Material Covenants

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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Mar-2020	Cash Credit	Long Term	4.00	ACUITE BB-/Stable (Upgraded from ACUITE B+/Stable)
	Term loans	Long Term	1.14	ACUITE BB-/Stable (Upgraded from ACUITE B+/Stable)
	Term loans	Long Term	0.25	ACUITE BB- /Stable (Upgraded from ACUITE B+ /Stable)
	Letter of credit	Short Term	1.75	ACUITE A4 (Reaffirmed)
	Bank guarantee	Short Term	0.50	ACUITE A4 (Reaffirmed)
	Proposed Fund Based Facility	Long Term	13.27	ACUITE BB-/Stable (Upgraded from ACUITE B+/Stable)
27-Aug-2019	Proposed Non-Fund Based Facility	Short Term	3.00	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE B+/Stable (Reaffirmed)
	Term loans	Long Term	1.14	ACUITE B+/Stable (Reaffirmed)
	Term loans	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 Fund Based	Long Term	13.27	ACUITE B+/Stable

	Facility			(Reaffirmed)
	Proposed Non-Fund Based 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	9.00 (Increased from 4.00)	ACUITE BB/Stable (Upgraded)
Term Loan I	Feb 2014	12.05%	Nov-2021	0.84 (Increased from 1.14)	ACUITE BB/Stable (Upgraded)
WCTL I	July 2020	9.25%	Jun-2024	0.90	ACUITE BB/Stable (Assigned)
WCTL II	July 2020	9.25%	Jun-2024	1.96	ACUITE BB/Stable (Assigned)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+ (Upgraded)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.55 (reduced from 13.27)	ACUITE BB/Stable (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE A4+ (Upgraded)

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About Acuité Ratings & Research:

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