

Press Release

Top Gear Transmission

August 22, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	13.25	ACUITE BB Stable Reaffirmed	-
Bank Loan Ratings	2.25	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	15.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BB**' (read as **ACUITE double B**) and its short term rating of '**ACUITE A4+**' (read as **ACUITE A four Plus**) on the Rs. 15.50 crore bank facilities of Top Gear Transmission (TGT). The outlook is '**Stable**'.

Reason for reaffirmation

The rating takes into consideration the established position of the group in the manufacturing of light as well as heavy gear boxes. It also draws comfort from the augmentation in the revenues for FY22. However the rating is constrained by the working capital intensive nature of operations, moderate financial risk profile and stretched liquidity position of the group with a higher reliance on short term borrowings.

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

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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.

Key Rating Drivers

Strengths

Experienced management and established 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 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 over the last 3 years through FY 2020- 22. Further, the group caters to reputed clientele in both public sector and private sectors namely Action construction equipment, Escort construction equipment, Spartan engineering industries private limited to name a few.

Acuité believes that the group will continue to benefit in medium term on account of the extensive experience and reputed client base.

Augmentation in the revenues

The Operating income of the group improved by ~35 percent to Rs.76.22 crore in FY2022(Prov) as against Rs.56.63 crore in FY2021. The increase in the income for FY22 is majorly due to higher demand for products and around 10-15 percent is due to higher price realization for the products. The operating profit margin declined and stood at 8.31 percent as on FY2022(Prov) as against 11.51 percent as on FY2021. The decrease in the operating profit margin is majorly due to the increase in the raw material costs ie steel in FY22. The PAT margin stood at 3.16 percent in FY22(Prov) as against 3.38 percent in FY21.

Acuité believes that the group's revenue will improve in the medium term on account of healthy demand for the gear boxes.

Weaknesses

Moderate financial risk profile

The Group's financial risk profile is moderate marked by moderate net-worth, high gearing and moderate debt protection metrics. The net worth of Group stood at Rs.11.07 crore as on March 31, 2022(Prov) as against Rs.9.93 crore as on March 31, 2021. The gearing level of the group stood high at 2.18 times as on March 2022. The total debt of the company comprised of long-term debt of Rs.7.65 crore, unsecured loans of Rs. 2.35 crore and short term debt of Rs.10.90 crore as on 31 March 2022(Prov). The coverage ratios of the company are moderate with Interest Coverage Ratio (ICR) of 2.66 times for FY22(Prov) as against 1.94 times for FY21. The Debt Service Coverage Ratio (DSCR) stood at 1.15 times for FY22(Prov) against 1.08 times for FY21. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 4.05 times for FY22.

Acuité believes the financial risk profile of the group will remain a key sensitivity in the medium term.

Working capital intensive operations

The group's operations are working capital intensive as evident from Gross Current Asset (GCA) of 191 days as on March 31, 2022(Prov), as against 249 days as on March 31 2021. The inventory levels improved and stood at 98 days for FY22 compared against 147 days for FY22(Prov). For making each gearbox around 55 items are required and each item goes through almost 6 processes. This results in the maintenance of high inventory by the group. The

average inventory days are around 100-120 days. The debtor days also improved and stood at 82 days for FY22(Prov) as against 105 days for FY21. The group receives 50 percent of the payment on delivery and remaining are received in around 60-80 days. The creditor days of the company stood at 124 days for FY22(Prov) as against 147 days for FY21. The average creditors days are around 60-90 days. The average utilization of the working capital limits of the company remained high at ~99 percent for TGT and ~91 percent for TGPT in last six months ended July'22.

Acuité believes the working capital management of the group will remain a key sensitivity in the medium term.

Susceptibility of margins to raw material price fluctuation

As the group is into the manufacturing of gear boxes, the major raw material is steel, the price of which is volatile in nature. There exists a risk of susceptibility of the margins due to the raw material price fluctuations.

Rating Sensitivities

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

Material Covenants

None

Liquidity position: Stretched

The group has a stretched liquidity position marked by low net cash accruals against the maturing debt obligations. The company generated cash accruals of Rs.4.08 crore in FY22 compared against the maturing debt obligations of Rs.3.24 crore for the same period. The cash accruals of the company are estimated to be around Rs.5.19- 9.38 crore during 2023-2025 period while its matured debt obligations is estimated to be around Rs.1.29-2.23 crore during the same period. The company reliance on working capital borrowings is also on a higher side marked by average utilization of working capital limits of ~99 percent for TGT and ~91 percent for TGPT during the last six months period ended July' 2022. Furthermore, the company maintained unencumbered cash and bank balances of Rs.2.08 crore as on March 31, 2022 and the current ratio stood at 1.37 times as on March 31, 2022.

Acuité believes that liquidity profile of the firm may improve in the medium term on account of moderate net cash accruals against low maturing debt obligations.

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.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	76.22	56.63
PAT	Rs. Cr.	2.41	1.91
PAT Margin	(%)	3.16	3.38
Total Debt/Tangible Net Worth	Times	2.18	2.26
PBDIT/Interest	Times	2.66	1.94

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

Not applicable

Any Other Information

None

Applicable Criteria

- Application Of 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument<https://www.acuite.in/view-rating-criteria-55.htm>**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
26 May 2021	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Upgraded from ACUITE A4)
	Proposed Bank Facility	Long Term	0.55	ACUITE BB- Stable (Upgraded from ACUITE BB- Stable)
	Working Capital Term Loan	Long Term	1.96	ACUITE BB Stable (Assigned)
	Working Capital Term Loan	Long Term	0.90	ACUITE BB Stable (Assigned)
	Cash Credit	Long Term	9.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Term Loan	Long Term	0.84	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Letter of Credit	Short Term	1.75	ACUITE A4+ (Upgraded from ACUITE A4)
04 Mar 2020	Proposed Bank Facility	Long Term	13.27	ACUITE BB- Stable (Upgraded from ACUITE B+ Stable)
	Proposed Bank Facility	Short Term	3.00	ACUITE A4 (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Reaffirmed)
	Term Loan	Long Term	0.25	ACUITE BB- Stable (Upgraded from ACUITE B+ Stable)
	Cash Credit	Long Term	4.00	ACUITE BB- Stable (Upgraded from ACUITE B+ Stable)
	Letter of Credit	Short Term	1.75	ACUITE A4 (Reaffirmed)
	Term Loan	Long Term	1.14	ACUITE BB- Stable (Upgraded from ACUITE B+ Stable)
27 Aug 2019	Bank Guarantee	Short Term	0.50	ACUITE A4 (Reaffirmed)
	Letter of Credit	Short Term	1.75	ACUITE A4 (Reaffirmed)
	Term Loan	Long Term	1.14	ACUITE B+ Stable (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE B+ Stable (Reaffirmed)

	Proposed Bank Facility	Short Term	3.00	ACUITE A4 (Reaffirmed)
	Proposed Bank Facility	Long Term	13.27	ACUITE B+ Stable (Reaffirmed)
	Term Loan	Long Term	0.25	ACUITE B+ Stable (Reaffirmed)
15 Jan 2019	Term Loan	Long Term	1.66	ACUITE B+ Stable (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Assigned)
	Letter of Credit	Short Term	1.75	ACUITE A4 (Assigned)
	Cash Credit	Long Term	4.00	ACUITE B+ Stable (Assigned)
	Term Loan	Long Term	2.00	ACUITE B+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Maharashtra	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+ Reaffirmed
Bank of Maharashtra	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BB Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE A4+ Reaffirmed
Bank of Maharashtra	Not Applicable	Term Loan	Not available	Not available	Not available	1.39	ACUITE BB Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Working Capital Term Loan	07-01-2020	9.25	30-06-2024	1.96	ACUITE BB Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Working Capital Term Loan	07-01-2020	9.25	30-06-2024	0.90	ACUITE BB Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Tanvi Kadam Analyst-Rating Operations Tel: 022-49294065 tanvi.kadam@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.