

Press Release

Egearz Private Limited

October 10, 2022



Rating Assigned

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---------------------------------------|---------------------|--------------------------------|-----------------------|
| Bank Loan Ratings | 0.50 | - | ACUITE A4+ Assigned |
| Bank Loan Ratings | 35.75 | ACUITE BB+ Stable Assigned | - |
| Total Outstanding Quantum (Rs. Cr) | 36.25 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.36.25 Cr. bank facilities of Egearz Private Limited (EGPL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned takes into account increase in EGPL's revenue, comfortable financial risk profile and efficient working capital operations. It also draws comfort from company's experienced management. The rating is however constrained by the company's nascent stage and modest scale of operations, customer concentration risk and presence in the highly competitive and cyclical nature of the industry. Ability of the company to improve its scale of operations & profitability and to expand its customer base in order to mitigate the revenue concentration risk will remain a key rating sensitivity factor.

About the Company

EGPL incorporated in the year 2019, is engaged into manufacturing of assemblies for electrical vehicles, hybrid vehicles and new age transmissions for automotive. The company uses latest technologies like high end sintering, banding, additive manufacturing (AM), metal Injection moulding (MIM) and 3D printing for development of sintered gear box for 3 wheelers, 2 wheelers and some systems for hybrid vehicles. The company has its manufacturing unit located at Shirwal in Satara district of Maharashtra.

Analytical Approach

Acuite has considered the standalone view of the business and financial risk profile of EGPL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management

EGPL is engaged into manufacturing of assemblies for electrical vehicles, hybrid vehicles and new age transmissions for automotive. It is promoted by Mr. Niranjn Narkhede & his wife Mrs. Sonal N. Narkhede. The promoters have an experience of more than two decades in the field of technology and are being supported by its team of experienced professionals in managing day to day operations of EGPL. The extensive experience of the promoters has enabled EGPL to establish a healthy relationship with its customers and suppliers.

Acuité believes that EGPL will continue to benefit from its experienced management.

Comfortable coverage indicators albeit moderate gearing and modest network

Financial risk profile of EGPL is comfortable marked by moderate gearing and comfortable coverage indicators. However, the net worth stood modest at Rs. 10 Cr. as on March 31, 2022 (Provisional) against Rs. 5 Cr. as on March 31, 2021. It also includes the amount of Rs.6 Cr as quasi equity since the unsecured loans from promoters/directors infused into the business are subordinated to bank borrowings. The gearing (debt-equity) stood moderate at 1.48 times as on 31 March, 2022 (Provisional) which remained nil in its previous year in absence of any debt. The gearing of the company is however expected to increase over the medium term on account of increase in the long term and short-term borrowings expected towards scheduled debt funded capex plan of increasing the installed capacity of sintering process by adding more number of machineries in the existing unit. The total debt of Rs.15 Cr as on 31 March, 2022 (Provisional) consists of long term bank borrowings of Rs.14 Cr and short term working capital limit of Rs.1 Cr.

The interest coverage ratio and DSCR stood comfortable at 3.92 times and 3.67 times for FY2022 (Provisional). The Net Cash Accruals to Total debt stood at 0.23 times for FY2022 (Provisional). The Total outside liabilities to Tangible net worth stood high at 2.18 times for FY2022 (Provisional) as against 0.85 times for FY2021.

Acuité believes that the financial risk profile of EGPL will remain comfortable over the medium term albeit some moderation on account of increase in debt levels for its proposed debt funded capex plan.

Improving operating performance albeit some moderation in profitability

EGPL reported revenues of Rs.32 Cr for FY2022 (Provisional) as against Rs.6 Cr in FY2021 and has achieved this mainly on account of increase in the sale of its sintered parts used in the electrical and hybrid vehicles in both domestic and export markets which contributed ~83 percent and ~17 percent of the sales in FY2022 as against ~7 percent of only domestic sales in FY2021. Sintered parts contributed ~78 percent of sales in FY2022 (Provisional) as against ~49 percent in FY2021. Company has its presence of selling the sintered parts in domestic market in states like Maharashtra, Gujarat, Haryana, Tamil Nadu & Uttar Pradesh whereas in exports it has presence only in Canada. The company procures raw material of ~90 percent from the domestic market and ~10 percent through imports from countries like China & USA. Apart from this, the company has established relationships with its reputed clienteles like Speciality Sintered Products, J.K. Fenner, Continental Engines, Black & Decker, Powercor Manufacturing amongst others from whom they receive repetitive orders which has helped the company to achieve a higher revenue.

The operating margin of the company has increased to 15.79 percent in FY2022 (Provisional) as against 11.62 percent in FY2021 on account of overall increase in the operating performance of the company. However, the net profit margin of the company has reduced to 4.67 percent in FY2022 (Provisional) as against 9.07 percent in FY2021 on account of significant increase in the depreciation and interest cost.

Going forward, company has plans to increase its scale of operations by achieving the total installed capacity of 5820 MT per annum for producing the sintered parts which they have planned to achieve in two different phases. For Phase 1, the company has plans to achieve 3780 MT per annum, out of which 2580 MT is already achieved as on August 2022. The remaining 1200 MT will be achieved during September 2022 to March 2023. For Phase 2, the company plans to further achieve 2040 MT which will commence from April 2023 onwards.

With this increase in the installed capacity, it is expected that the company will achieve a higher revenue over the medium term.

Acuité believes that EGPL's ability to improve its scale of operations and profitability in near to medium term will remain a key rating sensitivity factor.

Weaknesses

Nascent stage and modest scale of operations

EGPL is operating at a very nascent stage since it got incorporated in 2019 and the commercial production started in October 2020 and therefore has a modest scale of operations reflected in the revenue of Rs. 32 Cr. in FY2022 (Provisional) against Rs.6 Cr. in FY2021. The company's ability to absorb any unexpected losses is also constrained given its modest networth of Rs. 10 Cr.

Customer concentration risk

EGPL is susceptible to customer concentration risk as one of its largest client Speciality Sintered Products Pvt. Ltd. account for more than 50 percent of its revenue for FY2022 (Provisional). This makes the company highly susceptible to business risk profile of its top client.

Acuité believes that the ability of the company to expand its customer base in order to mitigate the revenue concentration risk will be a key rating sensitivity factor.

Cyclical and competition associated with automotive component industry

The auto component industry is highly competitive due to competition from organized and unorganized players. It is also highly cyclical in nature with growth linked to overall growth in the economy and consumption.

Acuité believes that EGPL's revenues to be exposed and tied to cyclical demand prospects of the automobile industry and the presence of other players which leads to increased competition.

Rating Sensitivities

- Ability to improve scale of operations and profitability
- Ability to expand customer base in order to mitigate the revenue concentration risk

Material covenants

None

Liquidity position - Adequate

EGPL has adequate liquidity position marked by adequate net cash accruals (NCA) to its no maturing debt obligations. The company generated cash accruals in the range of Rs.0.10 Cr to Rs.3.50 Cr during FY2020 to FY2022 (Provisional) against no repayment obligation during the same period. Going forward the NCA are expected in the range of Rs.7 Cr to Rs.9 Cr for period FY2023-FY2024 against repayment obligation in the range of Rs.3 Cr to Rs.5 Cr for the same period. The working capital operations of the company are efficient marked by its improved gross current asset (GCA) days of 137 days for FY2022 (Provisional) as against 296 days for FY2021. The average bank limit utilization for 6 months' period ended July 2022 stood moderate at ~51 percent. Current ratio stands at 1.45 times as on 31 March 2022 (Provisional). The company has maintained cash & bank balance of Rs.0.06 Cr in FY2022 (Provisional).

Acuité believes that the liquidity of EGPL is likely to remain adequate over the medium term on account of adequate cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that EGPL will maintain 'Stable' outlook over the medium term on account of its experienced management and comfortable financial risk profile. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate.

Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 22 (Provisional) | FY 21 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income | Rs. Cr. | 32.33 | 6.42 |
| PAT | Rs. Cr. | 1.51 | 0.58 |
| PAT Margin | (%) | 4.67 | 9.07 |
| Total Debt/Tangible Net Worth | Times | 1.48 | 0.00 |
| PBDIT/Interest | Times | 3.92 | 279.63 |

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

None

Any other information

None

Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History:

None

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|----------------|----------------|------------------------------------|------------------|----------------|----------------|-------------------|--------------------------------|
| HDFC Bank Ltd | Not Applicable | Bank Guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 0.50 | ACUITE A4+ Assigned |
| HDFC Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 6.25 | ACUITE BB+ Stable Assigned |
| Not Applicable | Not Applicable | Proposed Long Term Loan | Not Applicable | Not Applicable | Not Applicable | 14.06 | ACUITE BB+ Stable Assigned |
| HDFC Bank Ltd | Not Applicable | Term Loan | Not available | Not available | Not available | 15.44 | ACUITE BB+ Stable Assigned |

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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.

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