



Press Release
Egearz Private Limited
September 06, 2023
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	35.75	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	35.75	ACUITE BB+ Stable Reaffirmed	-
Bank Loan Ratings	0.50	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	72.00	-	-

Rating Rationale

Acuite has reaffirmed 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**'.

Acuite has also assigned the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the Rs.35.75 Cr. bank facilities of Egearz Private Limited (EGPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation of EGPL takes into account increase in the company's revenue in FY2023 and efficient working capital operations. It also draws comfort from company's experienced management and moderate financial risk profile. The rating is however constrained by the company's nascent stage of operations, customer concentration risk, increased gearing and presence in a highly competitive and cyclical nature of the industry. Going forward, ability of the company to maintain its scale of operations while improving the operating margins along with ability to expand its customer base to mitigate the revenue concentration risk and to maintain an efficient working capital cycle 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 promoted by Mr. Niranjan 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.

Moderate financial risk profile albeit increase in gearing

Financial risk profile of EGPL is moderate marked by moderate network, high gearing and moderate debt protection metrics. The tangible network of the company stood improved at Rs.23 Cr as on 31 March, 2023 as against Rs.11 Cr as on 31 March, 2022 due to accretion of net profit of Rs.6.97 Cr to reserves and additional equity infusion during the year of Rs.5.43 Cr including share premium. It also includes the amount of Rs.6 Cr been treated as quasi equity since the unsecured loans from directors infused into the business are subordinated to bank borrowings. Despite of improvement in the company's tangible network, the gearing (debt-equity) however stood increased at 1.76 times as on 31 March, 2023 as against 1.43 times as on 31 March, 2022 due to an increase in the overall debt profile during the year. The increase in the company's debt profile is towards the ongoing capex for increasing the overall production capacity. The gearing of the company is expected to increase further over the medium term on account of raising additional debt towards completion of the ongoing capex. The total debt of Rs.41 Cr as on 31 March, 2023 consists of long term bank borrowings of Rs.29 Cr, unsecured loans from directors of Rs.0.16 Cr and short term bank borrowings of Rs.12 Cr.

The interest coverage ratio stood improved at 5.33 times for FY2023 as against 4.84 times for FY2022, however the DSCR stood moderated at 2.54 times for FY2023 as against 4.48 times for FY2022. The Net Cash Accruals to Total debt stood at 0.21 times for FY2023 as against 0.27 times for FY2022. The Total outside liabilities to Tangible net worth stood increased at 2.63 times for FY2023 as against 2.14 times for FY2022. The Debt-EBITDA ratio stood high at 3.35 times for FY2023 as against 2.70 times for FY2022.

Acuité believes that the financial risk profile of EGPL is expected to remain moderate over the medium term on account of increase in the debt levels for its proposed debt funded capex plan.

Efficient working capital operations

The working capital operations of EGPL are efficient marked by its improved Gross Current Assets (GCA) of 111 days for FY2023 as against 148 days for FY2022. This is on account of its improved inventory and receivables cycle which stood at 50 days and 55 days for FY2023 as against 70 days and 71 days for FY2022. The creditors cycle of the company stood at 113 days for FY2023 as against 128 days for FY2022. The average bank limit utilization for 6 months' period ended June 2023 stood moderate at ~59 percent.

Acuité believes that the ability of EGPL to maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

Stable operating performance

EGPL reported an increase in its revenue of Rs.100 Cr for FY2023 as against Rs.32 Cr for FY2022 and has achieved this on account of increase in the sale of its sintered parts used in the various electrical and hybrid vehicles across both domestic and export markets. Despite of increase in the overall revenue, the operating margin of the company however stood declined at 11.91 percent for FY2023 as against 17.62 percent for FY2022 on account of increase in cost of raw materials and other operating expenses incurred during the year. On the other hand, the net profit margin of the company however stood improved at 6.95 percent for FY2023 as against 6.18 percent for FY2022.

For the current year FY2024, as on Q1 FY2024, EGPL has achieved revenue of Rs.26 Cr as

against Rs.17 Cr as on Q1 FY2023. 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, out of which they have already completed the Phase 1 capex of 3780 MT as on March 31, 2023 and the remaining Phase 2 capex of 2040 MT is expected to be completed by September 30, 2023.

Acuité believes that ability of EGPL to maintain its scale of operations while improving the operating margins will remain a key rating sensitivity factor.

Weaknesses

Nascent stage of operations and customer concentration risk

EGPL is currently operating at a very nascent stage since it got incorporated in 2019 and the commercial production started since October 2020. The company is also susceptible to customer concentration risk as ~50 percent of the company's revenue is generated through sales to their group company 'Speciality Sintered Products Pvt. Ltd' as per the requirement of various OEMs considering EGPL's nascent stage of business operations.

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

Cyclicality 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 maintain an efficient working capital cycle
- Ability to maintain scale of operations while improving the operating margins
- Ability to expand customer base in order to mitigate the revenue concentration risk

All Covenants

None

Liquidity Position - Adequate

EGPL has adequate liquidity position marked by sufficient net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.1 Cr to Rs.8 Cr during FY2021 to FY2023 against its debt repayment obligation in the range of Rs.2 Cr to Rs.3 Cr during the same period. Going forward, the NCA are expected in the range of Rs.10 Cr to Rs.12 Cr for the period FY2024-FY2025 against its debt repayment obligation of ~Rs.8 Cr during the same period. The working capital operations of the company are efficient marked by its gross current asset (GCA) days of 111 days for FY2023. The average bank limit utilization for 6 months' period ended June 2023 stood moderate at ~59 percent. Current ratio stands at 1.12 times as on 31 March 2023. The company has maintained cash & bank balance of Rs.0.03 Cr in FY2023.

Acuité believes that liquidity of EGPL is likely to remain adequate over the medium term on account of sufficient 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 reputed clientele. 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	100.26	32.34
PAT	Rs. Cr.	6.97	2.00
PAT Margin	(%)	6.95	6.18
Total Debt/Tangible Net Worth	Times	1.76	1.43
PBDIT/Interest	Times	5.33	4.84

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

Not applicable

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
10 Oct 2022	Term Loan	Long Term	15.44	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	6.25	ACUITE BB+ Stable (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Assigned)
	Proposed Long Term Loan	Long Term	14.06	ACUITE BB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	0.50	ACUITE A4+ Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.25	ACUITE BB+ Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.75	ACUITE BB+ Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	9.50	ACUITE BB+ Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	14.00	ACUITE BB+ Stable Reaffirmed
Exim Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	14.00	ACUITE BB+ Stable Assigned
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	14.00	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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