



Press Release
Egearz Private Limited
November 15, 2024
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	71.99	ACUITE BBB- Stable Upgraded	-
Bank Loan Ratings	0.01	-	ACUITE A3 Upgraded
Total Outstanding Quantum (Rs. Cr)	72.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to 'ACUITE BBB-' (read as ACUITE triple B minus) from 'ACUITE BB+' (read as ACUITE double B plus) and the short-term rating to 'ACUITE A3' (read as ACUITE A three) from 'ACUITE A4+' (read as ACUITE A four plus) on the Rs. 72.00 crore bank facilities of EGearz Private Limited (EGPL). The outlook is 'Stable'.

Rationale for rating

The rating upgrade of EGLPL takes into account increase in the company's revenue in FY24, improving market position and moderate working capital operations. It also draws comfort from the company's experienced management and moderate financial risk profile. The above mentioned rating strengths are partially offset by EGLPL's customer concentration risk, competitive and cyclical nature of industry. Furthermore, the company completed its ongoing capex of increasing its production capacity of sintering in September, 2024 and is planning introduce pressing technology in its production process in the near term which is expected to boost the overall cost efficiency and improve its scale of operations in medium term. Going forward, the company's ability to scale up its operations and profitability while maintaining its capital structure will remain a key rating monitorable.

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.

Unsupported Rating

Not Applicable.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management

EGPL is promoted by Mr. Niranjana 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

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.31.21 Cr. as on 31 March, 2024 as against Rs.23.12 Cr. as on 31 March, 2023 due to accretion of profits to reserves. It also includes unsecured loans from directors amounting to Rs.6.16 Cr. been treated as quasi equity as they are subordinated to bank borrowings. Despite of improvement in the company's network, the gearing (debt-equity) however stood increased at 1.84 times as on 31 March, 2024 as against 1.76 times as on 31 March, 2023 due to an increase in the overall debt profile during the year. The increase in the company's debt profile is on account of the ongoing capex for increasing the production capacity. The gearing of the company is expected to increase further and remain high over the medium term on account of raising additional debt towards completion of the ongoing capex. The total debt of Rs.57.35 Cr. as on 31 March, 2024 consists of long term bank borrowings of Rs.32.80 Cr, unsecured loans from directors of Rs.0.16 Cr and short term bank borrowings of Rs.16.85 Cr. The overall gearing is estimated to remain in the range of 0.90 to 1.50 times over the near to medium term.

The interest coverage ratio stood at 4.92 times for FY24 as against 5.33 times for FY23 and DSCR stood moderated at 2.47 times for FY24 as against 2.54 times for FY23. The Net Cash Accruals to total debt stood at 0.22 times for FY24 as against 0.21 times for FY23. The Total outside liabilities to Tangible net worth stood increased at 2.73 times for FY24 as against 2.63 times for FY23. The Debt-EBITDA ratio stood lower at 3.07 times for FY24 as against 3.35 times for FY23. Further, the overall financial risk profile is expected to remain moderate due to the debt funded capex which will be undertaken in near future.

Weaknesses

Customer Concentration Risk

The company is also susceptible to customer concentration risk as ~48 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 current 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.

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 operating margins.

Ability to expand customer base in order to mitigate the revenue concentration risk.

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.4.00 Cr. to Rs.12.00 Cr. during FY22 to FY24 against its debt repayment obligation in the range of Rs.2.00 Cr. to Rs.7.00 Cr. during the same period. Going forward, the NCA are expected in the range of Rs.17 Cr. to Rs.24 Cr. for the period FY25-FY26 against its debt repayment obligation of ~Rs.8-9 Cr. during the same period. The working capital operations of the company are moderate marked by its gross current asset (GCA) days of 123 days for FY24. The average bank limit utilization for 10 months' period ended September 2024 stood between average of 78% to 85%. Current ratio stands at 1.13 times as on 31 March 2024. The company has maintained cash & bank balance of Rs.0.03 Cr. in FY24.

Outlook: Stable

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	141.59	100.26
PAT	Rs. Cr.	8.15	6.97
PAT Margin	(%)	5.75	6.95
Total Debt/Tangible Net Worth	Times	1.84	1.76
PBDIT/Interest	Times	4.92	5.33

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>
- 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, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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
06 Sep 2023	Bank Guarantee/Letter of Guarantee	Short Term	0.50	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	14.00	ACUITE BB+ Stable (Reaffirmed)
	Cash Credit	Long Term	12.25	ACUITE BB+ Stable (Reaffirmed)
	Cash Credit	Long Term	7.75	ACUITE BB+ Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	9.50	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	14.00	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	14.00	ACUITE BB+ Stable (Assigned)
10 Oct 2022	Bank Guarantee/Letter of Guarantee	Short Term	0.50	ACUITE A4+ (Assigned)
	Term Loan	Long Term	15.44	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	6.25	ACUITE BB+ Stable (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	Quantum (Rs. Cr.)	Complexity Level	Rating
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	0.01	Simple	ACUITE A3 Upgraded (from ACUITE A4+)
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	7.75	Simple	ACUITE BBB- Stable Upgraded (from ACUITE BB+)
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	12.25	Simple	ACUITE BBB- Stable Upgraded (from ACUITE BB+)
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	3.73	Simple	ACUITE BBB- Stable Upgraded (from ACUITE BB+)
Exim Bank	Not avl. / Not appl.	Term Loan	02 Nov 2022	Not avl. / Not appl.	28 Feb 2030	12.64	Simple	ACUITE BBB- Stable Upgraded (from ACUITE BB+)
Small Industries Development Bank of India	Not avl. / Not appl.	Term Loan	01 Nov 2022	Not avl. / Not appl.	29 Nov 2029	12.02	Simple	ACUITE BBB- Stable Upgraded (from ACUITE BB+)
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	25 Sep 2023	Not avl. / Not appl.	07 Oct 2030	12.00	Simple	ACUITE BBB- Stable Upgraded (from ACUITE BB+)
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	26 Jul 2021	Not avl. / Not appl.	07 Dec 2028	11.60	Simple	ACUITE BBB- Stable Upgraded (from ACUITE BB+)

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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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