Press Release

Milestone Gears Private Limited
March 01, 2024

Rating

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	340.66 (Enhanced from Rs.328.00 crore)	IVR BBB+/Stable (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facility	10.00	IVR A2 (IVR Single A Two)	Reaffirmed	Simple
Total	**350.66 (INR Three hundred fifty- crore and sixty six lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation in the rating assigned to the bank loan facilities of Milestone Gears Private Limited (MSGPL) continues to derive comfort from its established track record of operations under experienced management and stable business performance in FY23 along with moderate debt protection metrices. The ratings also continue to consider its diversified product profile catering to various segment coupled with its reputed clientele base albeit customer concentration risk. However, these rating strengths continues to remain constrained by its elevated total debt leading to leveraged capital structure, susceptibility of profitability to volatility in raw material prices, working capital-intensive nature of its business, exposure to high competition and exposure to cyclicity in the automobile industry. The ratings also note expected moderation in business performance of the company in FY24 mainly due to weak performance of tractor segment which is the major revenue generator of the company.

Key Rating Sensitivities:

Upward factors

- Substantial and sustained growth in operating income, operating margin and cash accrual
- Improvement in working capital management with improvement in liquidity

- Improvement in the capital structure with improvement in debt protection metrics on a sustained basis
- Effective working capital management with improvement in operating cycle and liquidity.

Downward Factors

- Moderation in operating income and/or moderation in cash accrual impacting the debt protection metrics on a sustained basis
- Stretch in the working capital cycle driven by stretch in receivables, or sizeable capital expenditure weakening the financial risk profile, particularly liquidity.
- Moderation in the capital structure with deterioration in overall gearing to more than 4x and deterioration in TOL/TNW to over 5x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long track record of operation under experienced promoters**

Incorporated in 1984, MGPL has a long and established presence in the industry. Further, Mr Ashok Tandon (Chairman), the promoter of MGPL has overall experience of more than three decades in the industry. Mr Ashok Tandon is well assisted by his son, Mr Aman Tandon (Managing Director) who has an overall experience of around two decades through his association with the company. Moreover, the promoters of the company are well supported qualified professionals.

- **Reputed Clientele**

MGPL cates majority of its revenue from original Equipment's Manufacturers (OEM's) of large automobile companies and has developed an established & longstanding relationship with its customers over the long track record of its operation. The clientele of the MGPL includes reputed players like, Mahindra & Mahindra limited, TAFE, Automotive Axles Ltd, Escorts Ltd, etc. In addition, with increased focus on export, there has been addition of few reputed international clientele like John Deere and Caterpillar Inc. Strong association with these original equipment manufacturers (OEMs), results in increasing and repeat order flow. MGPL has been in the automotive components business for around 35 years. This has led to a well-established and reputed customer base both in domestic and export markets.

- **Diversified product profile catering to various segment types**

MGPL is engaged in the business of manufacturing of various types of axles, shafts & gears which diversify its product profile. These products find application in various automotive segments viz. tractors, commercial vehicles, and off-road vehicles.

- **Stable business performance in FY23 though moderation expected in FY24**

The total operating income (TOI) of the company has witnessed a steady y-o-y growth of ~21% in FY23 as the topline has improved and stood at Rs. 616.21 crores against to Rs.509.01 crore in FY22 on the back of higher sales volume and increase in sales realisation. Backed by rise in TOI, the absolute EBITDA has improved from Rs.60.44 crore in FY22 to Rs.71.93 crore in FY23. EBITDA margin through slightly moderated owing to higher overhead cost, continues to remain healthy at 11.67% in FY23 against 11.87% in FY22. The PAT margin of the company though remained thin over the years mainly due to its high depreciation expenses and leveraged capital structure leading to higher interest outgo has improved to 2.49% in FY23 over 2.12% in FY22. Further, gross cash accruals of the company have improved and remained comfortable at Rs.45.85 crore in FY23 against Rs.38.88 crore in FY22 to support its debt obligations. In 9M FY24, MSGPL has managed to churn out revenue of ~Rs. 407 crores with a comfortable operating margin of ~12%. Primarily, downward trend in the tractor segment in the present fiscal coupled with the softening of steel prices has led to reduction in the topline in FY 2023-24.

- **Moderate debt protection metrics**

Debt protection parameters of the company remained adequate over the years driven by its healthy operating profit and comfortable gross cash accruals. The interest coverage ratio though moderated yet remained satisfactory at 3.38x in FY23 driven by rise in absolute EBITDA despite increase in finance cost. Owing to increase in debt level in FY23, Total Debt to EBITDA and Total Debt to GCA both moderated and continues to remain high at 4.43x and 6.95 years respectively as on March 31, 2023, against 4.16x and 6.47x respectively as on March 31, 2022.

Key Rating Weaknesses:

- **Revenue concentration risk**

The company is exposed to revenue concentration risk as its top-5 customers accounted for ~58% of the total operating income in FY23 which has come down from ~67% of FY22. On the other hand, the company derived a major portion (~85%-90%) of its revenue from tractor manufacturing industry. However, the customer concentration risk is mitigated to some extent as the major revenue contributors of the company are well established players in the automobile industry and tractor industry in India has relatively stable demand. Furthermore, MGPL has established relationships with its clients and receives regular orders from them.

- **High competition and cyclicality in the tractor/construction equipment segment**

The automobile component industry is cyclical in nature and automotive component suppliers' sales and tractors' segment sales are directly linked to sales of auto OEMs and economic movements. Furthermore, the auto-ancillary industry is competitive with the presence of a large number of players in the organized as well as unorganized sector. While the organized segment primarily caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to tier II and III suppliers. However, established position of the MGPL and strong relationship with the OEMS given a competitive advantage.

- **Working capital intensive nature of operations**

Being in auto ancillary industry, the operations of MGPL are working capital intensive mainly due to its high receivables and large inventory holding requirements. MGPL extends credit of around 80-100 days to its customers and maintained average finished goods inventory of around 3-4 months, while credit received has been around 30-45 days. Reliance on working capital borrowings has, therefore, been moderate with ~83% working capital limit utilisation in the past 12 months ended December 2023.

- **Leveraged capital structure**

Total debt level of the company elevated in FY23 due to fresh term loans availed to fund its capacity expansion capex coupled with rise in working capital borrowings to support its increased scale of operations. Hence, both long-term debt to equity and overall gearing ratio have marginally moderated to 1.77x and 3.40x respectively as on March 31, 2023, as against 1.56x and 3.17x as on March 31, 2022. The total indebtedness of the company marked by TOL/TNW has also marginally moderated to 4.47x as on March 31, 2023, against 4.01x as on March 31,2022.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning Rating Outlook

Policy on Default Recognition

Criteria on Complexity

Liquidity: Adequate

The liquidity of the company is expected to remain adequate on the back of its expected adequate cash accruals. In FY23, MGPL had generated gross cash accrual of Rs.45.85 Cr against its debt repayment obligation of Rs.25.86 crore. Further, MGPL is also expected to generate steady cash accrual over the near medium term against its repayment obligation in the range of~Rs.35-40 crore during FY24-FY26. Moreover, the average utilisation of its cash credit limit remained moderate at ~84% in the past 12 months ended December 2023 indicating a moderate liquidity buffer. However, due to its leveraged capital structure the company is having a limited gearing headroom.

About the Company

Incorporated in 1984, MGPL is a private limited company promoted by Mr. Ashok Kumar Tandon (Chairman) and his sons, Mr. Aman Tandon & Mr. Amit Tandon. The company manufactures various automotive components such as rear axle shafts, bull gears, internal 5 gears, transmission gears, planetary gears, cluster gears & shafts, large gears, rock & PTO shafts, companion flanges, epicyclic reduction assemblies, slender shafts, etc., which find application in various segments of the auto industry including tractors, EV and off-road vehicles. The company caters to nearly 20 reputed original equipment manufacturers (OEMs) spread across nine countries around the globe. Currently, MGPL has nine manufacturing units in Punjab, Haryana and Himachal Pradesh, with an installed capacity of 45,25,000 pieces per annum (PPA), as on March 31, 2023.

Financials Standalone: Milestone Gears Private Limited

(Rs crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	508.65	615.82
EBITDA	60.08	71.54
PAT	10.82	15.41
Total Debt	251.36	318.67
Tangible Net worth	79.20	93.72
EBITDA Margin (%)	11.81	11.62

PAT Margin (%)	2.12	2.49
Overall Gearing Ratio (x)	3.17	3.40
Interest Coverage Ratio (x)	3.50	3.36

***** Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

(Rs. Crore)

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2023-4 (May 24, 2023)	Date(s) & Rating(s) assigned in 2022-23 (Aug 05, 2022)	Date(s) & Rating(s) assigned in in 2022-23 (July 25, 2022)	Date(s) & Rating(s) assigned in 2020-21 (June 30, 2021)
1.	Term Loan	Long Term	105.36*	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB Positive
2.	GECL	Long Term	45.30*	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable	-
3.	Cash Credit	Long Term	150.00	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB Positive
4.	Cash Credit	Long Term	40.00	IVR BBB+; Stable	-	-	-	-
4.	Bill Discounting	Short Term	10.00	IVR A2	IVR A2	IVR A2	IVR A2	IVR A3+

****Outstanding as on November 30, 2023***

Name and Contact Details of the Rating Analyst:

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About Infomerics Ratings:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary. For more information visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Cash Credit	-	-	-	190.00	IVR BBB+; Stable
Long Term Fund Based Limits – Term Loan	-	-	Mar 2030	105.36	IVR BBB+; Stable
Long Term Fund Based Limits – GECL	-	-	Mar 2028	45.30	IVR BBB+; Stable

Short Term Fund Based Limits – Bill Discounting	-	-	-	10.00	IVR A2

Annexure 2: Facility wise lender details: As per attached annexure

Annexure 3: List of companies considered for consolidated analysis: Not applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.