Milestone Gears Private Limited

May 24, 2023

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	328.00 (Enhanced from Rs.259.94 crore)	IVR BBB+; Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed	Simple
Short-Term Bank Facilities	10.00 (Reduced from Rs.15.00 crore)	IVR A2 (IVR A Two)	Reaffirmed	Simple
Short-Term Bank Facilities	-	-	Withdrawn	
Total	**338.00 (INR Three hundred thirty eight crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation in the ratings assigned to the bank facilities of Milestone Gears Private Limited (MGPL) continues to derive strength from its established track record of operations under experienced management and improvement in scale of operation with rise in profitability in FY23 along with moderate debt protection metrices. The ratings also 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 continuous rise in its total debt leading to leveraged capital structure. Any further rise in long term debt will remain a key monitorable. Moreover, the ratings also remain constrained marked by its working capital-intensive nature of its business along with high competition and exposure to cyclicity in the tractor & off road vehicle segment. The withdrawal of rating assigned to a short-term facility was due to receipt of no due certificate from the lender upon repayment of such facility.

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.

Downward Factors

- Decline in operating income and profitability leading to deterioration in debt coverage indicators on a sustained basis
- Moderation in the capital structure with deterioration in overall gearing to more than 4x and deterioration in TOL/ATNW to over 5x
- Deterioration in liquidity position with rise in working capital intensity, resulting in heavy utilisation of the existing limits.

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 albeit customer concentration**

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, United Gear and Assembly, USA and Caterpillar Inc. Despite being long association with reputed clientele, MGPL is exposed to customer concentration risk as its top five customers accounted for ~78% of the total operating income in FY23.

- **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 and off-road vehicles. Furthermore, MGPL is also exporting its manufactured automobile parts for manufacturing of Electric Vehicles (EV). Going forward the company will put further impetus on EV segment.

- **Improvement in scale of operations with rise in profitability in FY22 and FY23**

The total operating income (TOI) of the company has witnessed steady y-o-y growth of ~42% in FY22 to Rs.508.65 crore supported by increase in export revenue in FY22 (from 3.39% in FY21 to 10.78% in FY22). In FY23 (Prov.), the topline has grown further to Rs. 615.45 crore as the percentage if export sale has also gone up to ~14% during the year. The growth is driven by increase in demand from tractor, off-road vehicles and rise in order inflow from EV segment leading to higher sales coupled with improvement in its sales realisation and addition of few international players in the client list. Backed by rise in TOI, the absolute EBITDA has improved considerably from Rs.60.08 crore in FY22 to Rs.77.08 crore in FY23 (Prov.). The EBITDA margin has also improved and continued to remain healthy at 12.52% in FY23 (Prov.). against 11.81% in FY22. Further, the PAT margin also improved to 2.93% in FY23 (Prov.). Backed by rise in profit levels, gross cash accruals of the company have improved and remained comfortable at Rs.49.56 crore in FY23 (Prov.). against Rs.38.88 crore in FY22 to support its debt obligations.

- **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 3.46x 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 continues to remain high at 4.51x and 7.02x respectively as on March 31, 2023, against 4.18x and 6.47x as on March 31, 2022.

Key Rating Weaknesses:

- **High competition and cyclicality in the tractor/off road vehicle 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 10 months ended January, 2023.

- **Leveraged capital structure**

The capital structure of the company remained leveraged over the past three account closing dates due to its higher reliance on term debts to fund its capex and high reliance on working capital borrowings to fund its high working capital requirements. As on March 31, 2023 (Prov.), the Tangible net worth of MGPL stood at Rs.97.37 crore. During FY23, the company has availed fresh term loans to fund its capex and also availed fresh GECL loans and increased its working capital borrowings to support its increased scale of operations leading to increase in total debt from Rs.251.36 crore as on March 31, 2022 to Rs.347.75 crore as on March 31, 2022 (Prov.). Hence, both long-term debt to equity ratio and overall gearing ratio have marginally moderated to 1.91x and 3.57x respectively as on March 31, 2023 (Prov.), 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 4.53x as on March 31, 2023 (Prov.), against 4.00x as on March 31,2022. Infomerics expects improvement in its capital structure with reduction in total debt going forward. However, the movement of total debt will remain a key rating monitorable.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning rating outlook

Liquidity: Adequate

The liquidity of the company is expected to remain adequate on the back of its expected adequate cash accruals. As per provisional FY23 numbers, MGPL had generated gross cash accrual of Rs.49.56 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.32-37 crore during FY24-FY26. Further, the average utilisation of its cash credit limit remained moderate at ~84% in the past 10 months ended January 2023 indicating a moderate liquidity buffer.

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 of Milestone Gears Private Limited (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	508.65	615.45
EBITDA	60.08	77.08
PAT	10.82	18.06
Total Debt	251.36	347.75
Tangible Net worth	79.31	97.37
EBITDA Margin (%)	11.81	12.52
PAT Margin (%)	2.12	2.93
Overall Gearing Ratio (x)	3.17	3.57
Interest Coverage Ratio (x)	3.50	3.46

*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 2022-23	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	Long Term	126.20	IVR BBB+ Stable	IVR BBB+ Stable (Aug 05, 2022)	IVR BBB+ Stable (July 25, 2022)	IVR BBB; Positive (June 30, 2021)	-
2.	GECL	Long Term	51.80	IVR BBB+ Stable	IVR BBB+ Stable (Aug 05, 2022)	IVR BBB+ Stable (July 25, 2022)	-	-
3.	Cash Credit	Long Term	150.00	IVR BBB+ Stable	IVR BBB+ Stable (Aug 05, 2022)	IVR BBB+ Stable (July 25, 2022)	IVR BBB; Positive (June 30, 2021)	-
4.	Bill Discounting	Short Term	10.00	IVR A2	IVR A2 (Aug 05, 2022)	IVR A2 (July 25, 2022)	IVR A3+ (June 30, 2021)	-
5.	Bill Discounting	Short Term	-	Withdrawn	IVR A2 (Aug 05, 2022)	IVR A2 (July 25, 2022)	IVR A3+ (June 30, 2021)	-

Name and Contact Details of the Rating Analyst:

Name: Indranil Mukherjee Tel: (033) 46022266 Email: indranil.mukherjee@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com

About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

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 – Term Laon	-	-	Mar 2030	126.20	IVR BBB+ Stable
Long Term Fund Based Limits – GECL	-	-	Mar 2028	51.80	IVR BBB+ Stable
Long Term Fund Based Limits – Cash Credit	-	-	-	150.00	IVR BBB+ Stable
Short Term Fund Based Limits – Bill Discounting	-	-	-	10.00	IVR A2
Short Term Fund Based Limits – Bill Discounting	-	-	-	-	Withdrawn

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-MilestoneGears-may23.pdf

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.