



Press Release

Milestone Gears Private Limited

July 25, 2022

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	225.50	IVR BBB+; Stable (IVR Triple B Plus with Stable Outlook)	Revised from IVR BBB; Positive (IVR Triple B with Positive Outlook)	Simple
Short Term Bank Facilities	19.50	IVR A2 (IVR A Two)	Revised from IVR A3+ (IVR A Three Plus)	Simple
Total	245.00 (INR Two hundred and forty-five crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Milestone Gears Private Limited considers improvement in its scale of operations with rise in profitability in FY22 coupled with its satisfactory debt protection metrics. Further the ratings continue to derive comfort from the long track record of operation of the company under experienced promoters, reputed clientele and diversified product profile. These rating strengths continues to remain partially offset by revenue concentration risk, exposure to high competition and cyclicity in the tractor/construction equipment segment, working capital intensive nature of its operation and leveraged capital structure.

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
- Sustenance of the capital structure with improvement in debt protection metrics on a sustained basis

Downward Factors:

- Moderation in operating income and/or moderation in cash accrual impacting the debt protection metrics on a sustained basis



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- Stretch in the working capital cycle driven by stretch in receivables or sizeable capital expenditure weakens the financial risk profile, particularly liquidity.
- Any unplanned capex and /or deterioration in overall gearing to over 3.5x

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 Aman Tandon (Managing Director) who has an overall experience of more than two decades looks after the overall operation of the company well supported by qualified professionals.

Reputed Clientele

MGPL caters 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. Strong association with these original equipment manufacturers (OEMs), results in increasing and repeat order flow. Diversified product profile 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. Further, MGPL has complete manufacturing facilities in-house from forging to machining (including heat treatment) thereby ensuring continues supplies to its customers & achieved a higher value addition of 50 to 55%.

Improvement in scale of operations with rise profitability in FY22

The total operating income (TOI) of the company has witnessed steady y-o-y growth of ~41% in FY22 to Rs.505.35 crore supported by increase in export revenue in FY22 (from 3.39% in FY21 to 10.49% in FY22). The growth is driven by increase in demand from tractor and off highway segment leading to higher sales coupled with improvement in its sales realisation and addition of few international players like Caterpillar Inc., John Deere, etc. in the client list. Backed by rise in TOI, the absolute EBITDA has improved considerably from Rs.38.71 crore in FY21 to Rs.56.02 crore in FY22 and the EBITDA margin continued to remain healthy at 11.09% in FY22 (Prov.) [10.82% in FY21].



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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 2.76% in FY22 (Prov.) over 1.31% in FY21. Despite its thin PAT margin, gross cash accruals of the company remained comfortable over the aforesaid period to support its debt obligations.

Satisfactory debt protection metrics

Debt protection parameters of the company remained adequate over the years driven by its healthy operating profit level and comfortable gross cash accruals. The interest coverage ratio remained satisfactory over the years and stood at 2.89x in FY21 further improved to 3.40x in FY22(Prov.). However, the Total debt to GCA remained moderate owing to its leveraged capital structure over the years and stood at 6.77 years in FY22 (Prov.) against 9.92 years in FY21.

Key Rating Weaknesses

Revenue concentration risk

The company is exposed to revenue concentration risk as its top-5 customers accounted for ~67% of the total operating income in FY22 and on the other hand the company derived a major portion (~75%-80%) 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 cyclicity 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



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around 60-90 days to its customers and maintained average finished goods inventory of around 1-2 months, while credit received has been around 45-60 days. Reliance on working capital borrowings has, therefore, been moderate with ~90.10% working capital limit utilisation in the past 12 months ended May 2022.

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. The long-term debt to equity ratios has moderated marginally to 1.48x as on March 31, 2022, against 1.38x of March 31, 2021. However, backed by steady tangible net worth base and lower utilisation of working capital borrowings, the overall gearing has improved slightly from 3.33x in FY21 to 3.04x as on March 31, 2022. Overall indebtedness of the company marked by TOL/TNW has also improved to 3.64x as on March 31, 2022 [4.43x as on March 31, 2021]. Infomerics believes that the capital structure of the company will continue to remain leveraged in the near term and any further capex and its funding mix will remain critical.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

Liquidity: Adequate

The liquidity of the company is expected to remain adequate on the back of its expected adequate cash accruals. MGPL had generated adequate cash accrual of around Rs.37.21 Cr in FY22 (provisional) as against its debt repayment obligation of around Rs.16.74 crore. Further, MGPL is also expected to generate steady cash accrual in the range of ~Rs.50.75-89.13 crore over the near medium term against its repayment obligation in the range of ~Rs.24.60-31.09 crore during FY23-25. Further, the average utilisation of its cash credit limit remained moderate at ~90% in the past 12 months ended May 2022.

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



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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, commercial vehicles and off-road vehicles. The company caters to nearly 20 reputed original equipment manufacturers (OEMs) spread across 9 countries around the globe. Currently, MGPL has eight manufacturing units in Punjab, Haryana and Himachal Pradesh, with an installed capacity of 39,00,000 pieces per annum (PPA), as on March 31, 2022.

Financials of MGPL (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2021	31-03-2022
	Audited	Provisional
Total Operating Income	357.88	505.35
EBITDA	38.71	56.02
PAT	4.70	13.96
Total Debt	229.58	251.73
Tangible Net worth	68.97	82.93
EBITDA Margin (%)	10.82	11.09
PAT Margin (%)	1.31	2.76
Overall Gearing Ratio (x)	3.33	3.04
Interest Coverage Ratio (x)	2.86	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:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2022-23)			(Rs. Crore)		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2021-22 (June 30, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1	Cash Credit	Long Term	125.00	IVR BBB+; Stable	IVR BBB; Positive	-	-
2	Term Loan	Long Term	78.29	IVR BBB+; Stable	IVR BBB; Positive	-	-
3	GECL	Long Term	22.21	IVR BBB+; Stable	-	-	-



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Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2021-22 (June 30, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
4	Fund Based	Short Term	19.50	IVR A2	IVR A3+	-	-

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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

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of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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	-	-	-	125.00	IVR BBB+; Stable
Long Term Fund Based Limits – Term Loan	-	-	March 2026	78.29	IVR BBB+; Stable
Long Term Fund Based Limits – GECL	-	-	-	22.21	IVR BBB+; Stable
Short Term Fund Based Limits	-	-	-	19.50	IVR A2

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-Milestone-Gears-july22.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.