



Press Release

Milestone Gears Private Limited

June 30, 2021

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities - Term Loan	94.12	IVR BBB/ Positive (Triple B with Positive Outlook)	Assigned
Long Term Bank Facilities - Fund Based Limit	125.00	IVR BBB/ Positive (Triple B with Positive Outlook)	Assigned
Proposed Long Term Bank Facilities	0.88	IVR BBB/ Positive (Triple B with Positive Outlook)	Assigned
Short Term Bank Facilities - Fund Based Limit	25.00	IVR A3+ (IVR A Three Plus)	Assigned
Total	245.00 (Rupees Two hundred and forty five crores only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Milestone Gears Private Limited (MGPL) derives comfort from its long track record of operation under experience promoters, reputed clientele, partially integrated nature of its operations and diversified product profile. The rating also positively factors in its stable financial performance with improvement in total operating income and profitability in FY21 (provisional) coupled with its satisfactory debt protection metrics. However, these rating strengths are partially offset by susceptibility of its profitability to volatility in raw material prices to an extent, revenue concentration risk, high competition and cyclicity in the auto component segment, working capital intensive nature of its operations and leveraged capital structure. The outlook is positive based on expected improvement in its scale of operations coupled with expected improvement in profitability leading to improvement in liquidity in the near term.

Key Rating Sensitivities:

Upward Factors:



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- Substantial and sustained growth in operating income, operating margin and cash accrual
- Improvement in working capital management with improvement in liquidity
- Improvement in capital structure with overall gearing improved to below 2.5x and/or improvement in debt protection metrics on a sustained basis

Downward Factors:

- Moderation in operating income and 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 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 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 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.

Stable financial performance with improvement in financial performance with improved profitability in FY21



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The total operating income (TOI) of the company remained erratic over the past four fiscals. The company has witnessed sharp y-o-y rise in its top-line in FY19 driven by steady improvement in its sales realisation and increase in sales volume. The increase in volume was primarily on account of increased orders from the customers, especially in the tractor segment. However, during FY20 the company has witnessed traction in its total operating income by ~22% mainly due to slowdown in the domestic automobile industry (especially tractors segment, which has remained a major revenue contributor of the company in the past). However, as per FY21 provisional, despite lockdown in first two months of FY21, MGPL reported revenue of Rs.350.52 crore, driven by revival of automobile industry and consequent higher order inflow to the company as an automobile component manufacturer after lockdown since July 2020. Despite its erratic TOI the company has been able to maintain its EBITDA margin within a comfortable range of 12%-13% over the past four fiscals. The PAT margin of the company remained low over the years mainly due to its leveraged capital structure leading to higher interest outgo and high depreciation expenses. Further, in first three months of FY22, the company has achieved turnover of around Rs.124 crore. Infomerics expects notable growth in its scale of operations in the near term.

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 2.55x in FY20 and further improved to 2.78x in FY21 (Prov.). However, the Total debt to GCA remained moderate owing to its leveraged capital structure over the years and stood at 6.54 years in FY20 and 7.28 years in FY21 (Prov.) respectively.

Partially integrated operations

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%.

Key Rating Weaknesses

Exposure to volatility in raw material prices

The major raw material required for the MGPL is steel and steel related items, prices of which are volatile in nature. The company procures these raw materials at prevailing market prices. However, though some of its contracts with OEM'S has price revision clause to protect its



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margins to an extent, the overall profitability largely remains susceptible to fluctuations in its raw material prices.

Revenue concentration risk

The company is exposed to revenue concentration risk as its top-5 customers accounted for ~74% of the total operating income in FY21 (~65% in FY19) and on the other hand the company derived a major portion (~85%-90%) of its revenue from tractor 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 in the country. Furthermore, MGPL has established relationships with its clients and receives regular orders from them.

High competition and cyclicity in the commercial 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 many 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 ~84% working capital limit utilisation in the past 12 months ended March, 2021.

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. 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



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Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

The liquidity of the company is expected to remain adequate on the back of its expected adequate cash flow. MGPL had generated adequate cash accrual of around Rs.28.63 Cr as against its debt repayment obligation of around Rs.12.19 crore in FY21 (provisional). Further, MGPL is also expects to generate steady cash accrual in the range of ~Rs.35-62 crore over the near to medium term against its repayment obligation in the range of ~Rs.15-22 crore during FY22-24. Further, the average utilisation of its cash credit limit remained moderate at ~84% in the past 12 months ended March ,2021 indicating a moderate liquidity buffer.

About Milestone Gears Private Limited

Incorporated in 1984, MGPL is a private limited company promoted by Mr Ashok Kumar Tandon (Chairman) and his sons, Mr Aman Tandon. The company manufactures various automotive components such as rear axle shafts, bull gears, internal 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 nine countries around the globe. Currently, MGPL has eight manufacturing units in Punjab, Haryana and Himachal Pradesh, with an installed capacity of 30,50,000 pieces per annum (PPA), as on March 31, 2021.

Financials : MGPL

	(Rs. crore)	
For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	291.67	350.52
EBITDA	36.22	44.72
PAT	1.26	4.98
Total Debt	140.30	205.62
Tangible Net worth	65.11	70.08
EBITDA Margin (%)	12.42	12.76
PAT Margin (%)	0.43	1.42
Overall Gearing Ratio (x)	2.15	2.93



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**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: CARE has moved MGPL to Issuer Not Co-operating vide its press release dated March 25, 2021 for non-submission of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan	Long Term	94.12	IVR BBB/ Positive Outlook	-	-	-
2.	Cash Credit	Long Term	125.00	IVR BBB/ Positive Outlook	-	-	-
3.	Bill Discounting	Short Term	25.00	IVR A3+	-	-	-
4.	Proposed Fund Based Limit	Long Term	0.88	IVR BBB/ Positive Outlook	-	-	-

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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually



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widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Term Loan	-	-	August 2027	94.12	IVR BBB/ Positive Outlook
Long Term Fund Based Facilities- Cash Credit	-	-	-	125.00	IVR BBB/ Positive Outlook
Short Term Fund Based Facilities- Bill Discounting	-	-	-	25.00	IVR A3+
Proposed Long Term Fund Based Facility	-	-	-	0.88	IVR BBB/ Positive Outlook

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/LEN-msgpl-30-6-21.pdf>