



Press Release

Milestone Gears Private Limited

October 08, 2024

Ratings

Facilities	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	342.20 (Enhanced from Rs.340.66 crore)	IVR BBB+; Stable (IVR Triple B Plus with Stable Outlook)	IVR BBB+; Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed	Simple
Short-Term Bank Facility	10.00	IVR A2 (IVR A Two)	IVR A2 (IVR A Two)	Reaffirmed	Simple
Total	352.20 (INR Three hundred fifty- two crore and twenty lakh only)				

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation in the ratings 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, diversified product profile catering to various segments coupled with its reputed clientele base albeit customer concentration risk. The ratings also consider the comfortable operating margin of MSGPL despite moderation in business performance in FY24 [FY refers to the period from April 01 to March 31] and positive tractor industry outlook in FY25 expected to result in improvement in business performance of the company. However, these rating strengths continue to remain constrained by the leveraged capital structure and average debt protection metrics of the company coupled with working capital-intensive nature of its operation. The ratings also note exposure to high competition and cyclicity in the tractor/construction equipment segment and revenue concentration risk. The stable outlook reflects expected steady business operation of MSGPL in the near term backed by positive tractor industry outlook in FY25 guided by its experienced promoters.

Key Rating Sensitivities:



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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 and debt protection metrics with improvement in overall gearing to below 2x and interest coverage to above 4x on a sustained basis
- Effective working capital management leading to 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 any unplanned 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. 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. 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



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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 segments

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.

Comfortable operating margin despite moderation in business performance in FY24

Owing to the downward trend in the Tractor segment (main revenue generating segment for MSGPL) total operating income of MGPL has dampened in FY24 to Rs.531.56 crore as compared to Rs.616.21 crore in FY23. Affected by the moderation in topline, absolute EBITDA has also moderated and stood at Rs.62.31 crore in FY24 against Rs.71.93 crore in FY23. However, backed by better sales realization along with slightly reduced overhead cost, the operating margin of MGPL has improved and continues to remain healthy at 11.72% in FY24 as against 11.67% of FY23. However, affected by higher finance cost coupled with reduced absolute EBITDA, the PAT margin has moderated to 1.67% in FY24 from 2.49% of FY23. Further, gross cash accruals of the company were sufficient to meet the scheduled debt repayment obligations. In the present fiscal (FY25) till August 2024 MGPL has managed to churn out revenue of ~Rs.229 crore.

Positive industry outlook in FY25

The Indian tractor industry is expected to perform better in FY25 and is likely to post a modest growth of ~4-5% and agriculture sector by ~3-5% this fiscal. The expected growth is fuelled by an above-normal rainfall forecast and increase in kharif sowing area among others. In FY24, the domestic tractor industry reported ~8% dip in its sales volume to 8.7 lakh tractors due to erratic and deficient rainfall, leading to delayed crop harvests and reduced sowing of crops. However, the industry witnessed marginal increase of ~1% in Q1 indicating an uptick in demand.

Key Rating Weaknesses:

Leveraged capital structure and average debt protection metrics

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,



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2024, the adjusted tangible net worth (ATNW) of MGPL stood at Rs.99.98 crore (after deducting the long pending receivable of Rs.2.20 crore from the tangible net worth). Despite the higher working capital utilisation in FY24, backed by steady accretion of profit to reserve and gradual repayment of term loans, both adjusted long-term debt to equity and overall gearing ratio have improved to 1.44x and 3.17x respectively as on March 31, 2024, as against 1.80x and 3.46x as on March 31, 2023. The total indebtedness of the company marked by TOL/ATNW has also improved to 3.96x as on March 31, 2024, against 4.55x as on March 31, 2023. Further, owing to higher finance cost and reduced EBITDA, the interest coverage ratio though moderated yet remained satisfactory at 2.51x in FY24. Total Debt to EBITDA and Total Debt to GCA both moderated and continues to remain high at 5.09x and 8.92 years respectively as on March 31, 2024, against 4.43x and 6.95 years as on March 31, 2023.

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 90-100 days to its customers and maintained average finished goods inventory of around 3-4 months, while credit received has been around 50-60 days. Reliance on working capital borrowings has, therefore, been moderate with ~90% working capital limit utilisation in the past 12 months ended August 2024.

Revenue concentration risk

The company is exposed to revenue concentration risk as its top 5 customers accounted for ~57% of the total operating income in FY24. 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 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



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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.

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 position of the company is expected to remain adequate marked by expected adequate gross cash accruals. In FY24, MGPL had generated gross cash accrual of Rs.35.52 Cr against its debt repayment obligation of Rs.35.18 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.40-32 crore during FY25-FY27. However, the average working capital utilization of the company remained high at ~92% indicating low liquidity buffer. Due to its leveraged capital structure the company is having a limited gearing headroom. Moreover, any unplanned capex or stretch in the operating cycle might affect the liquidity position of the company.

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 combined installed capacity of 45,25,000 pieces per annum (PPA), as on March 31, 2024.



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Financials Standalone: Milestone Gears Private Limited

(Rs crore)

For the year ended* / As On	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	616.21	531.56
EBITDA	71.93	62.31
PAT	15.41	8.91
Total Debt	318.67	316.83
Tangible Net worth (Book)	93.72	102.08
Tangible Net worth (Adjusted)	92.14	99.88
EBITDA Margin (%)	11.67	11.72
PAT Margin (%)	2.49	1.67
Overall Gearing Ratio (x) (Adjusted)	3.46	3.17
Interest Coverage Ratio (x)	3.38	2.51

* 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 2024-25)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2023-24 (Mar 01, 2024)	Date(s) & Rating(s) assigned in 2023-24 (May 24, 2023)	Date(s) & Rating(s) assigned in 2022-23 (Aug 05, 2022)	Date(s) & Rating(s) assigned in 2022-23 (July 25, 2022)
1.	Term Loan	Long Term	114.60*	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable
2.	GECL	Long Term	37.60*	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable
3.	Cash Credit	Long Term	190.00	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable
4.	Bill Discounting	Short Term	10.00	IVR A2	IVR A2	IVR A2	IVR A2	IVR A2

*Outstanding/Partly disbursed as on July 30, 2023

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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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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



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Long Term Fund Based Limits – Term Loan	-	-	Mar 2030	114.60	IVR BBB+; Stable
Long Term Fund Based Limits – GECL	-	-	Mar 2028	37.60	IVR BBB+; Stable
Short Term Fund Based Limits – Bill Discounting	-	-	-	10.00	IVR A2

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-Milestone-Gears-8oct24.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.