May 19, 2023

# Radheya Machining Limited: Rating Reaffirmed; rating amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term Fund-based – Term loan** | 10.00 | 11.13 | [ICRA]BB- (Stable); Reaffirmed/assigned for enhanced amount |
| **Long Term - Unallocated** | 0.00 | 38.87 | [ICRA]BB- (Stable); Assigned |
| **Total** | **10.00** | **50.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Radheya Machining Limited (RML) and Yashwant Forging Private Limited (YFPL), hereafter known as the 'Group'. The consolidated view considers the corporate guarantee provided by RML for debt taken by YFPL as well as their operational linkages and common management between the two entities.

The rating reaffirmation favourably factors in the extensive experience of the promoters in the automobile industry, its reputed client base and its ability to facilitate in-house manufacturing through its group entities with minimal reliance on third-party vendors. Additionally, the Group is expanding into new business segments, which can contribute to further top-line growth in the upcoming fiscal years. However, the successful execution of this expansion strategy remains to be seen.

The rating, however, is constrained by moderate scale of operations, high customer concentration risk and low bargaining power with customers. The business also remains highly working capital intensive as reflected by the elongated receivable cycle and inventory holdings, leading to stretched liquidity position. Due to high borrowings related to working capital requirements, the capitalisation and coverage metrics also remain at average levels. The rating also factors in the stiff competition in the industry as well as exposure to cyclicity of the end user industry.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group will continue to benefit from the extensive experience of the promoters in the automobile industry and its established relationships with reputed original equipment manufacturers (OEMs).

## Key rating drivers and their description

### Credit strengths

**Established track record of promoters in the automobile industry –** RML was incorporated in 1999 as a manufacturer and supplier of automobile components with specialisation in engine and transmission gears. The promoters have an extensive track record of over 20 years in the automobile industry and have established strong relationships with reputed OEMs in India.

**Reputed client base –** The Group operates as a primary tier-1 supplier of auto components, particularly for tractors, to various OEMs. The company's clientele includes well-known automobile OEM companies such as Mahindra & Mahindra, Carrao India Pvt. Ltd., and Escorts Ltd. The company's long-standing relationships with key customers, spanning over 15 years, have resulted in repeat orders, contributing to the company's revenue profile over the years.

### Credit challenges

**Moderate scale of operations and high customer concentration risk** – The Group is positioned as a relatively moderate scale auto component supplier company with presence mainly in the tractor/commercial vehicle segment. The company's OI (operating income) stood at Rs. 121.7 crore in FY2022 with a moderate CAGR of 4.2% over the past five years, primarily due to the limited presence in one segment and fragmented nature of the industry. However, from FY2024, the company is looking at diversifying into new business segments, viz. the railways, defence and electric vehicles (EVs), which is expected to add diversity to the revenue profile and will remain a key rating sensitivity. Also, with limited scale, the Group's top five customer contribution to its revenues has been around 70% in the past fiscal years, with around 50% of revenues coming from a single customer, reflecting high customer concentration risk. However, comfort can be taken from the established clientele profile and established relationships with them.

**Subdued financial risk profile characterised by high gearing, moderate debt coverage indicators and stretched liquidity profile** – The entity's financial profile at a consolidated level has remained subdued, with a high gearing ratio of 2.1x, and moderate interest coverage and debt service coverage ratios of 2.4x and 1.4x, respectively, as of FY2022. This is attributed to the debt-funded capex, as well as the high working capital requirement resulting from elongated receivable days and long inventory holding periods. The company's working capital limits also remained fully utilised, reflecting a stretched liquidity position.

**Vulnerability of revenues and profitability to inherent cyclicality in the auto industry** – The company's primary revenue is driven by the commercial vehicle (CV)/tractor segment, especially the tractor segment, which drove 60% of its revenues in FY2022. The cyclical nature of these industries makes the company's financial performance vulnerable to downturns. The sales of tractors/CVs are dependent on agricultural production and construction activities. Hence, any decline in the performance of these particular industries can have an impact on the Group's profitability.

**Presence in competitive and fragmented industry; low bargaining power** – The Group is a mid-sized player in the highly competitive and fragmented automobile supplier industry. Hence, the Group has low bargaining power with reputed clients, leading to limited pricing flexibility and an elongated receivable cycle.

## Liquidity position: Stretched

The company`s liquidity position is stretched with high working capital requirement, resulting in the almost fully utilised working capital limits of Rs. 35 crore, providing no undrawn buffer. The company had free cash and liquid investment of Rs. 0.14 crore as on March 31, 2022 and Rs 0.18 crore as on January 31, 2023. The company has repayment obligations of around ~Rs.6.94 crore in FY2024, which is expected to be met through internal cash accruals.

## Rating sensitivities

**Positive factors –** The rating could be upgraded in case of notable scale up in the revenues and profitability coupled with significant improvement in liquidity profile and coverage indicators along with diversification in product and customer profile.

**Negative factors –** Negative pressure on the company's rating could arise if there is any substantial decline in scale of operations or profitability levels, leading to deterioration in coverage metrics. Any large debt-funded capex or stretch in working capital cycle adversely impacting its liquidity profile and other key credit metrics can also exert downward pressure on the ratings.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Auto Component Suppliers |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has consolidated the financials of Radheya Machining Limited (RML) and Yashwant Forging Private Limited (YFPL), given the corporate guarantee provided by RML for the debt taken by YFPL, as well as the operational and financial linkages between them, coupled with their common management. |

## About the company

Radheya Machining Limited, incorporated on December 13, 1999, has two manufacturing units in Sanaswadi, Pune (Maharashtra). The company is engaged in manufacturing components for engine and transmission gears, arms, levers, drive line components, ball valves, and many other automobile parts. The company is mainly a tier-1 vendor and supplier to major automobile OEMs. RML is headed by Mr. Dhananjay Bhargav (MD) and Mr. Santosh Joshi (WTD).

### Key financial indicators (audited)

| RML Consolidated | FY2021 | FY2022 |
|---|---|---|
| **Operating income** | 104.8 | 121.7 |
| **PAT** | 0.5 | 2.6 |
| **OPBDIT/OI** | 16.5% | 15.0% |
| **PAT/OI** | 0.4% | 2.1% |
| **Total outside liabilities/Tangible net worth (times)** | 3.2 | 2.8 |
| **Total debt/OPBDIT (times)** | 4.8 | 4.1 |
| **Interest coverage (times)** | 1.9 | 2.4 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore*

### Key financial indicators (audited)

| RML Standalone | FY2021 | FY2022 |
|---|---|---|
| **Operating income** | 104.8 | 121.7 |
| **PAT** | 0.5 | 2.1 |
| **OPBDIT/OI** | 12.2% | 10.8% |
| **PAT/OI** | 0.5% | 1.7% |
| **Total outside liabilities/Tangible net worth (times)** | 2.5 | 2.3 |
| **Total debt/OPBDIT (times)** | 4.4 | 4.0 |
| **Interest coverage (times)** | 2.0 | 2.5 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore;*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

<table>
<tr><th colspan="2" rowspan="3">Instrument</th><th colspan="5">Current rating (FY2024)</th><th colspan="3">Chronology of rating history for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount rated (Rs. crore)</th><th rowspan="2">Amount outstanding as of May 15, 2023 (Rs. crore)</th><th colspan="2">Date & rating in FY2024</th><th>Date & rating in FY2023</th><th>Date & rating in FY2022</th><th>Date & rating in FY2021</th></tr>
<tr><th>May 19, 2023</th><th>April 05, 2023</th><th>-</th><th>-</th><th>-</th></tr>
<tr><td>1</td><td>Fund Based - Term loans</td><td>Long term</td><td>11.13</td><td>1.66</td><td>[ICRA]BB-(Stable)</td><td>[ICRA]BB-(Stable)</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>2</td><td>Unallocated</td><td>Long term</td><td>38.87</td><td>-</td><td>[ICRA]BB-(Stable)</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
</table>

### Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term fund-based – Term Loan | Simple |
| Long term - Unallocated | NA |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

### Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | **Term Loan 1*** | NA | NA | NA | 5.00 | [ICRA]BB-(Stable) |
| **NA** | **Term Loan 2** | FY2022 | NA | FY2029 | 2.50 | [ICRA]BB-(Stable) |
| **NA** | **Term Loan 3** | FY2024 | NA | FY2029 | 1.66 | [ICRA]BB-(Stable) |
| **NA** | **Term Loan 4*** | NA | NA | NA | 1.97 | [ICRA]BB-(Stable) |
| **NA** | **Unallocated** | NA | NA | NA | 38.87 | [ICRA]BB-(Stable) |

*Source: Company; *proposed*

*Please click here to view details of lender-wise facilities rated by ICRA*

### Annexure II: List of entities considered for consolidated analysis

| Company Name | Relationship | Ownership | Consolidation Approach* |
|---|---|---|---|
| Yashwant Forging Private Limited | Group Company | NA | Full Consolidation |

**Consolidated on the basis of corporate guarantee provided by the RML to the debt undertaken by YFPL as well as operations linkages and common management between the two entities*

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