Rating Rationale

**Warm Gears Pvt. Ltd.**

**23 April 2019**

**Brickwork Ratings reaffirms the long term rating for the Fund Based Bank Loan Facilities of ₹. 7.00 Crores and assigns the short term rating for the Non Fund Based Bank Loan Facilities of Warm Gears Pvt. Ltd..**

## Particulars

| Facility | Amount (₹ Crs) | | Tenure | Rating* | |
|---|---|---|---|---|---|
| | Previous | Present | | Previous August 2017 | Present |
| **Fund Based**<br>**Cash Credit**<br>**Term Loan** | 8.00<br>3.93 | 7.00<br>- | **Long Term** | **BWR D (Pronounced as BWR D)** | **BWR D (Pronounced as BWR D) (Reaffirmed)** |
| **Non Fund Based**<br>**Letter of Credit** | - | 3.00 | **Short Term** | **-** | **BWR D (Pronounced as BWR D) (Assigned)** |
| **Total** | **11.93** | **10.00** | **INR Ten Crore Only** | | |

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

BWR has essentially relied upon the audited financial results of the Company upto FY18, projected financials for FY19, FY20 and FY21 and select financial data for current financial year, publicly available information and information/clarifications provided by the management.

The rating draws strength from vast experience of the promoters in the field of manufacturing of gears used in automotive industry for more than a decade. The rating is further supported by low gearing and comfortable liquidity as Current ratio as on March 31, 2018 was above the benchmark at 1.63x as against 1.10x as on March 31, 2017

The rating, however, is constrained by weak profit margins, declining revenue which has decreased further in FY18 to Rs.33.43 Crs as against Rs.35.49 Crs, weak debt protection metrics i.e. ISCR of the Company has decreased further to 0.73x for FY18 as against 1.04x for FY17. Similarly, DSCR of the Company has remained below 1. Besides, there are irregularities in servicing the debt obligations.

Going forward the company's ability to improve profitability and increase revenues will be the key rating sensitivities.

**Description of Key Rating Drivers**

**Credit Strengths:**

- **Experienced promoters -** The promoters have been in the same line of business of manufacturing of gears used in automotive industry for more than a decade.
- **Comfortable gearing and liquidity position :** Due to closure of SBI Term Loan in FY18, Total gearing has improved to 0.73x as on March 31, 2018 as against 1.26x as on March 31, 2017. Due to lower CPLTD in FY18, Current ratio as on March 31, 2018 was comfortable at 1.63x as against 1.10x as on March 31, 2017

**Credit Risks**

- **Small scale of operation :** Due to complete discontinuation of job work sales from its group company i.e. Warm Forging Pvt. Ltd. TOI of the WGPL has decreased further in FY18 to Rs.33.43 Crs as against Rs.35.49 Crs in FY17. And according to the information provided by the management the company has achieved Rs.27.00 Cr. of revenue till March, 2019 which has declined from Rs.33.43 Cr in FY18.
- **Low Profitability :** Operating profit margin has remained low at 8.69% for FY18 as against 13.44% in FY17. Due to profit from sale of 2 lands at Bhiwadi (Rajasthan), the Company has net extraordinary income of Rs.3.37 Crs due to which its PAT for FY18 has increased to Rs.1.40 Crs as against a net loss of Rs.2.49 Crs in FY17
- **Debt Protection Metrics :** Due to declining operating profit, debt coverage indicators, ISCR of the Company has decreased further to 0.73x for FY18 as against 1.04x for FY17. Similarly, DSCR of the Company has remained below 1.
- **Presence in a highly competitive industry :** The company is engaged in the manufacturing of gears used in the automotive industry. The industry is dominated by numerous independent, small-scale enterprises.
- **Irregularities in servicing the debt obligations.**

## Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

**About the Company**

Warm Gears Pvt. Ltd. was incorporated in 2008 by Mr. Amit Rajput and Mrs. Anupam Chauhan. The Company is engaged in manufacturing of gears used in the automotive industry for 2-wheelers and 4-wheelers.
Warm Gears Private Limited is involved in Design, Engineering, Forging and casting, Machining and Assembly and surface treatment of components.

**Liquidity Position :** Comfortable Current ratio of the Company at 1.63X in FY18. The company has availed a CC of Rs.7.00 Cr. with 100% utilization.

## Company's Financial Performance

During FY18, the company reported net revenues of Rs.33.43 Crs and PAT of Rs.1.40 Crs. According to information provided by the management, the company has clocked a revenue of Rs.27.00 Crs in FY19.

**Key Financial Indicators**

| Key Parameters | Units | 2018 | 2017 |
|---|---|---|---|
| **Result Type** | | | |
| Operating Revenue | ₹ Cr | 33.43 | 35.49 |
| EBITDA | ₹ Cr | 2.90 | 4.77 |
| PAT | ₹ Cr | 1.40 | -2.49 |
| Tangible Net worth | ₹ Cr | 26.51 | 25.12 |
| Total Debt/Tangible Net worth | Times | 0.73 | 1.26 |
| Current Ratio | Times | 1.63 | 1.10 |

## Rating History for the last three years

| S.No | Instrument /Facility | Current Rating (April, 2019) | | | Rating History | | |
|---|---|---|---|---|---|---|---|
| | | Type (Long Term/ Short Term) | Amount (₹ Crs) | Rating | Aug, 2017 | Sept, 2016 | April, 2016 |
| | **Fund Based Cash Credit Term Loan** | Long Term | 7.00 - | BWR D (Pronounced as BWR D) Reaffirmed | BWR D (Pronounced as BWR D) Downgrade | BWR B (Pronounced as BWR Single B) Upgrade | BWR D (Pronounced as BWR D) |
| | **Non Fund Based Letter Of Credit** | Short Term | 3.00 | BWR D (Pronounced as BWR D) Assigned | NA | NA | |
| | **Total** | | **10.00** | **₹ Ten Crores Only** | | | |

## Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**
- **Short Term Debt**

**For any other criteria obtain hyperlinks from website**


| Analytical Contacts | Media |
|---|---|
| *Satvinder Kumar Gakhar*<br>*Associate Director-Ratings*<br><br>analyst@brickworkratings.com | media@brickworkratings.com<br>**Relationship Contact** |

| | |
|---|---|
| | bd@brickworkratings.com |
| **Phone: 1-860-425-2742** | |

**For print and digital media**
The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

**Note on complexity levels of the rated instrument:**
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

## About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

**DISCLAIMER**

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.