

GNA Axles Limited

July 26, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Ratings Action
Long term Bank Facilities	139.08	CARE A; Positive (Single A; Outlook: Positive)	Reaffirmed
Short term Bank Facilities	15.50	CARE A1 (A One)	Reaffirmed
Total Facilities	154.58 (Rupees One hundred Fifty Four crore and Fifty Eight lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of GNA Axles Limited (GAL) continue to derive strength from the comfortable financial risk profile of the company as reflected in its increasing scale and comfortable profitability margins and overall solvency position. The ratings further derive strength from the long track record of operations with highly experienced promoter group and long & established business relationship with a reputed clientele. The ratings are, however, constrained by the elongated operating cycle, exposure to client concentration and project execution risks, vulnerability of margins to raw material prices & foreign exchange volatility and the cyclical nature of the automobile industry. Going forward, the ability of the company to scale-up its operations, manage the working capital requirements efficiently and complete the ongoing project within the time & cost estimates will remain the key rating sensitivities.

Outlook: Positive

The outlook is 'Positive' on the expectation of growth in scale of operations with healthy profitability margins along with comfortable liquidity position of the company going forward. This is expected to be on the back of increase in the manufacturing capacities of the company post completion of capex in FY18 (refers to the period April 01 to March 31). The outlook may be revised to 'Stable' if the company is unable to profitably scale-up its operations while maintaining a comfortable liquidity position.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operations with an experienced management team: GAL is promoted by Mr Rachhpall Singh (Executive Chairman) and Mr Gursaran Singh (Managing Director) who have nearly five decades of industry experience. Other family members of the promoter group are also involved in the day-to-day business activities of the company. The directors are assisted by a team of professionals who are highly experienced in their respective domains.

Long and established business relationship with clients: The group has been in the auto component industry since 1946. GAL markets its products through a common marketing network at the group level providing a whole range of products including axles, gears and shafts under one roof. The company has been long associated with its clients. The association with some of the domestic clients has been since the commencement of company operations. Furthermore, over the years, the company has increased its focus on exports with clients in the USA, Europe, Asia Pacific, Mexico, Brazil, etc. The company has been supplying to some of the export clients since 2000. Long and established relationships with clients provide revenue stability to the company. Apart from supplying directly to Original Equipment Manufacturers (OEMs), the company also provides components to the tier-1 suppliers.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.

Comfortable financial risk profile: The total operating income of the company increased by ~30% as compared to last year on the back of increased demand from its domestic as well as export clients and improved sales realization in the domestic market. Though the PBILDT margins of the company declined in FY18, on account of increase in raw material costs which were not completely passed on to its customers, the same continued to remain at a comfortable level. The PAT margins, however, improved during the year, on account of lower interest expenses and higher PBILDT in absolute value terms. The overall solvency position of the company remained comfortable and improved on a year-on-year basis. The interest coverage ratio also improved in FY18 on account of improved profitability and decline in interest expenses during the year.

In Q1FY19 (UA), the company had achieved a total operating income of Rs. 212.71 cr. which increased by ~46% on a year-on-year basis compared to the same period last year. The PBILDT margins declined during the period to 14.93% compared to 16.33% achieved in Q1FY18 (UA) on account of increased raw material costs. The PAT margins stood at 6.58% in Q1FY19 (PY: 7.59%). The interest coverage ratio improved on a y-o-y basis to 13.80x in Q1FY19 compared to 11.41x in Q1FY18.

Reputed clientele; albeit, customer concentration risk: GAL has a long history of supplying auto parts to reputed OEMs who enjoy strong market position. Furthermore, for its export clients (exports contributing ~46% to the total operating income in FY18), GAL supplies auto parts for their plants located in various geographies including USA, Brazil, Australia, Mexico, Italy, Spain, etc., thereby mitigating the risk arising from slowdown in one particular geographical location. However, the revenue stream of GAL remains concentrated with top-5 and top-10 clients accounting for about 62% and around 79%, respectively, of the total income in FY18 (PY: 56% and 74%, respectively). Any significant deterioration in the performance of these clients is expected to have an impact on the financial profile of GAL.

Key Rating Weaknesses

Susceptibility of margins to volatility in raw material prices and foreign exchange risk: The operations of the company are raw material intensive in nature with the raw material cost constituting around 55% of the income in FY18. Furthermore, GAL derives a substantial portion of its income from exports while the raw material procurement is done completely from the domestic market, thereby exposing the company to risks associated with adverse fluctuations in the foreign currency. However, the forex risk is mitigated to some extent as a part of the working capital limit is availed in foreign currency thereby providing hedge against adverse currency movements.

Elongated operating cycle: The average operating cycle days of GAL further elongated to 96 days as on March 31, 2018 (PY: 78 days). The cash credit limit remained ~25% and the PCFC limit remained fully utilized, on an average, in the last 12 months ended June- 2018.

Project execution risk: The company undertook capacity enhancement project in FY17-18 for enhancing its forging and machining capacity to ~4 million units per annum (~3 million units, as on March 31, 2017) at a total project cost of ~Rs.80 cr. The project cost was funded through the IPO (Initial Public Offer) proceeds generated by the company during FY17. The project achieved its COD in March-18 within the cost and time estimates. The company is further enhancing its forging and machining capacity to 5 million units per annum at a total project cost of ~Rs.90 cr., proposed to be funded completely through term loans of Rs.90 cr (full tied-up). As on June 30, 2018, the company has incurred a total expenditure of ~Rs. 35 crore towards building & advances for purchase of machineries. The project is expected to start commercial operations by April-19. Though the project is in the same line of business, the ability of the company to complete the proposed capex within the projected time and cost estimates will remain a key rating sensitivity.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's policy on default recognition](#)

[CARE's methodology for manufacturing companies](#)

[Criteria for Short Term Instruments](#)

[CARE's methodology for Auto Ancillary Companies](#)

Company Background

GNA Axles Limited (GAL) is a Jalandhar based company, incorporated in the year 1993. GAL is the flagship company of the GNA group, set-up in the year 1946 for manufacturing of auto components for commercial vehicles, tractors and off-highway equipment. The company is engaged in the business of manufacturing and supplying axle shafts and spindles (ranging from 2 kg to 150 kg) to OEMs and Tier-1 suppliers. GAL has its manufacturing facilities located in Hoshiarpur, Punjab with an installed capacity of ~4 million pieces per annum, as on March 31, 2018. Apart from catering to the domestic clients, GAL also exports its products to USA, Brazil, Sweden, Mexico, Italy, Spain, etc.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	516.32	673.01
PBILDT	83.35	105.93
PAT	28.19	50.60
Overall gearing (times)	0.41	0.38
Interest coverage (times)	6.66	14.93

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	40.00	CARE A; Positive
Non-fund-based - ST-Bank Guarantees	-	-	-	0.50	CARE A1
Term Loan-Long Term	-	-	March-2022	39.08	CARE A; Positive
Fund-based - LT-Packing Credit in Foreign Currency	-	-	-	60.00	CARE A; Positive
Non-fund-based - ST-Letter of credit	-	-	-	15.00	CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	40.00	CARE A; Positive	-	1)CARE A; Stable (12-Jun-17) 2)CARE A; Stable (13-Apr-17)	1)CARE A- (05-Jul-16) 2)CARE A- (01-Jun-16)	1)CARE BBB+ (07-Jul-15)
2.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A1	-	1)CARE A1 (12-Jun-17) 2)CARE A1 (13-Apr-17)	1)CARE A2+ (05-Jul-16) 2)CARE A2+ (01-Jun-16)	1)CARE A2 (07-Jul-15)
3.	Term Loan-Long Term	LT	39.08	CARE A; Positive	-	1)CARE A; Stable (12-Jun-17) 2)CARE A; Stable (13-Apr-17)	1)CARE A- (05-Jul-16) 2)CARE A- (01-Jun-16)	-
4.	Fund-based - LT-Packing Credit in Foreign Currency	LT	60.00	CARE A; Positive	-	1)CARE A; Stable (12-Jun-17) 2)CARE A; Stable (13-Apr-17)	1)CARE A- (05-Jul-16) 2)CARE A- (01-Jun-16)	-
5.	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A1	-	1)CARE A1 (12-Jun-17) 2)CARE A1 (13-Apr-17)	1)CARE A2+ (05-Jul-16) 2)CARE A2+ (01-Jun-16)	-

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