Guru Nanak Auto Enterprises Limited

April 06, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	123.25 (Reduced from 132.01)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Short Term Bank Facilities	15.00	CARE A2+ (A Two Plus)	Revised from CARE A2 (A Two)
Total Bank Facilities	**138.25 (Rs. One Hundred Thirty-Eight Crore and Twenty-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Guru Nanak Auto Enterprises Limited (GNA) takes into account overall improvement in the financial risk profile of the company in FY21 (refers to the period April 01 to March 31) and 9MFY22 (Provisional). The ratings continue to derive strength from the experienced & resourceful promoters with long track record of operations of the company and established relationship with diversified and reputed clientele. These rating strengths are, however, partially offset by the exposure to foreign currency fluctuation risk and cyclical nature of the automotive industry coupled with moderate scale of operation.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Scaling up of operations, with operating income growing to more than Rs.600 Cr.
- Sustainability in PBILDT margins around 25%.
- Improvement in the overall gearing ratio to below 0.70x.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in PBILDT margin below 15% on a sustained basis.
- Deterioration in the capital structure as marked by overall gearing ratio of above 1.50x.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in the overall financial risk profile:

The scale of operations of the company remained in similar line with slight dip of 4.78% in FY21 against FY20 majorly due to lockdown implement to tackle spread of COVID. However, post relaxation in restrictions due to COVID revenue was substantially improved in FY22 and company has achieved Rs. 380 crores during 11MFY22 (refers to the period April 01 to February 28) as compared to Rs.350.82 crore during FY21 (refers to the period April 01 to March 31). Total revenue includes 61.98% of export revenue and balance domestic revenue in FY21 against export revenue of 60.11% in FY20. The PBILDT margins of the company improved significantly to 20.82% in FY21 from 15.96% in FY20 mainly on account of better operational performance followed by improvement in capacity utilisation. The PAT margins of the company also improved on a year-on-year basis, to 7.53% in FY21 from 4.28% in FY20 mainly due to higher PBILDT margin. The capital structure of the company has also improved on a year-on-year basis, with the long-term debt- to-equity and overall gearing ratios of 0.48x and 1.29x as on March 31, 2021, respectively (compared to 0.54x and 1.81x, respectively, as on March 31, 2020). The improvement in the capital structure was on the back of accretion of profits to the net worth and lower debt outstanding at the end of the year. The interest coverage ratio of the company also improved to 5.92x in FY21 (P.Y 3.52x) due to improved profitability. The total debt to GCA ratio improved to 3.09x, as on March 31, 2021, from 3.86x as on March 31, 2020.

In 9MFY22 (Prov.), the scale of operations of the company has substantially improved by 29.81% on a y-o-y basis to Rs. 301.09 crores as compared to Rs. 231.90 crores in corresponding period of last financial year and the company is expected to achieve revenue of Rs 429 crores during FY22 as they have already booked turnover of Rs 380 crores till February 28,2022. However, the PBILDT margins of the company has shown slight dip on a y-o-y basis to 19.46% in 9MFY22 (Prov.) from 22.55% in 9MFY21 (Prov.) mainly on account of incremental steel prices. Although, company was able to shift the burden of incremental raw material prices to buyers and same has not impacted PBILDT in absolute terms. However, due to substantial growth in revenue during 9M'FY22 PBILDT in absolute terms is higher as compared to corresponding period of previous financial year.

Export turnover comprises 60.11% of total turnover during FY21 which has been reduced to 50.72% during 9M'FY22 on account of higher domestic billings. Although, in absolute terms export turnover remains in similar line with FY21.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Experienced & resourceful promoters with long track record of operations:
GNA is engaged in the manufacturing of automobile components for more than four decades. The company is managed by well-qualified and experienced management team with Mr. Jagdish Singh (Chairman) and Mr. Radhakrishnan Singaram (Managing Director) having rich experience in same line of activity handling the day-to-day affairs of the company. They are further supported by key executives who have rich experience in the industry. Furthermore, the promoters are resourceful and have regularly infused funds in the past to support various business requirements of the company.

Established relationship with diversified and reputed clientele:
Over the period, GNA has established a reputed customer base both in the domestic and export markets which include reputed auto original equipment manufacturers (OEMs) and tier-1 auto component suppliers. Furthermore, GNA majorly caters commercial vehicle segments which comprises roughly 90% of revenue. In FY21, about 61.98% of the total income of the company was derived from export clients (60.11% in FY20). Export revenue comprises 50.72% during 9M'FY22 of total revenue mainly on account of higher domestic orders during FY22. Penetration in export market with exclusive supply agreement with some of the prominent customers such as Ford etc., has further strengthened the market position of GNAEL; other customers comprise of Tata Motors, Eicher Motors among others. Furthermore, Company works on the basis of long-term agreement with their export clients and has added additional clients like Man-Germany and Scania-Sweden during FY22 for which the full year impact will come in FY23. The long-term agreement and with diversification across geographies and customers, provides revenue visibility and reduced concentration in any particular market or customer.

Key Rating Weaknesses
Exposure to foreign currency fluctuation risk:
The profitability margins of GNA are exposed to foreign exchange fluctuation, as the company derives a significant portion of its operating income from exports. Though some expenses related to raw material and spare parts, etc. are incurred in foreign currency, it provides a natural hedge to the company to some extent. Further the company also avails forward contract, PCFC and export bill discounting facilities to counter the forex risk. Furthermore, since the complete exposure of the company is not hedged, it is exposed to any adverse fluctuation in the foreign exchange prices. However, foreign currency fluctuations have impacted company positively and they have booked gain of Rs 1.40 crores for FY21 and Rs 6.10 crores for FY20.

Cyclical nature of the automotive industry:
GNA derived major portion of its income from sales made to reputed clients in the automobile industry (both domestic and exports). Any downtrend experienced in the performance of these players will have an impact on the financial profile of GNA. Any fluctuation in the global and domestic economic conditions is also expected to have an impact on GNA's financial performance. Furthermore, operational performance of GNA will also be directly impacted by policy and performance of prominent original equipment manufacturers (OEM's)

Liquidity: Adequate
The company has a total debt repayment obligation of only Rs. 11.57 crores in FY22, which will be met through the proposed cash accruals of Rs.56.83 crore for the year. Furthermore, company has booked cash accruals of Rs. Rs. 38.95 crores during 9MFY22(Prov.). The current and quick ratio stood at a moderate level of 1.31x and 1.05x, as on March 31, 2021. The company had cash and cash equivalent of Rs. 4.28 crores as on March 31, 2021 (PY: Rs. 2.77 crore). The average working capital utilization of the company stood at 80% during the last 12 months ending November 2021. However, the operating cycle of the company was elongated to 147 days, as on March 31, 2021 (PY: 108 days). The same was on account of elongated average collection period 145 days (PY: 118 days). Average collection period in FY20 is lower on account of lockdown during the month of March 20 as company has billed comparatively low during the month. However, realisation remains in similar line during March 20. Furthermore, average collection period was also slightly impacted during FY21 due to increased lead time in shipment due to COVID.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Auto Ancillary Companies
Manufacturing Companies

About the Company
Incorporated in 1974, GNA is a public limited (closely held) company owned by Mr. Jagdish Singh and his family members. The company manufactures various automotive components such as rear axle shafts, brake s-cam shafts, torsion bars, steel forgings, wheel spindles and clutch shafts used in passenger cars, light commercial vehicles (LCVs), and medium & heavy commercial vehicles (M&HCVs). The manufacturing facilities of the company are located in Punjab. GNA is catering to major Original Equipment Manufacturers (OEMs), auto component manufactures both in domestic and export markets.

(Rs. in crores)

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-12-2021 (P)
Total operating income	368.43	350.82	301.09
PBILDT	58.82	73.03	58.61
PAT	15.77	26.43	26.34
Overall gearing (times)	1.81	1.29	1.11
Interest coverage (times)	3.52	5.92	7.99

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	108.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	Aug 2026	15.25	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	15.00	CARE A2+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	108.00	CARE A-; Stable	-	1)CARE BBB+; Stable (10-Mar-21)	1)CARE BBB; Stable (26-Feb-20)	1)CARE BBB; Stable (08-Jan-19)
2	Fund-based - LT-Term Loan	LT	15.25	CARE A-; Stable	-	1)CARE BBB+; Stable (10-Mar-21)	1)CARE BBB; Stable (26-Feb-20)	1)CARE BBB; Stable (08-Jan-19)
3	Non-fund-based - ST-BG/LC	ST	15.00	CARE A2+	-	1)CARE A2 (10-Mar-21)	1)CARE A3+ (26-Feb-20)	1)CARE A3+ (08-Jan-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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